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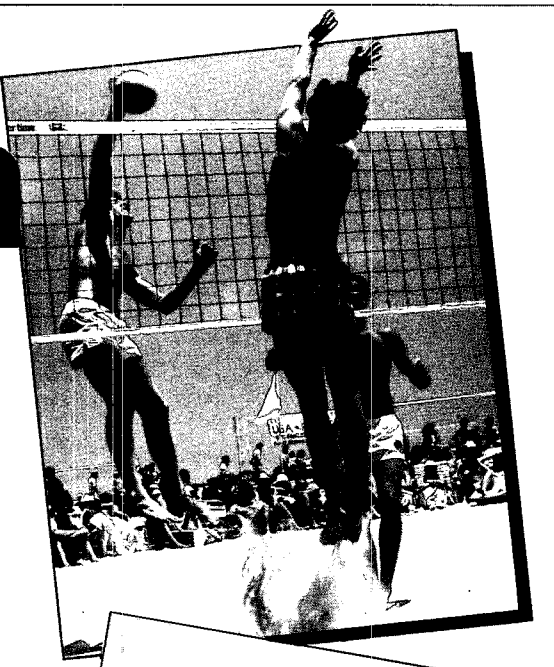

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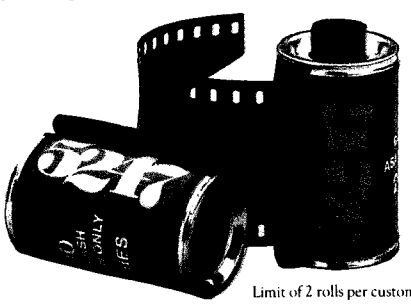

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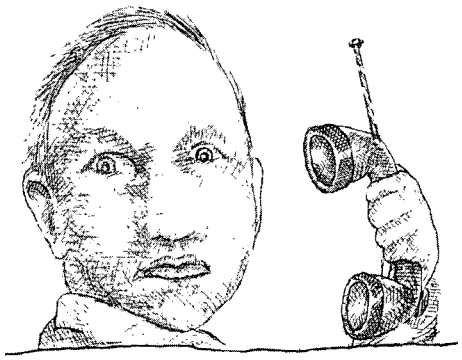

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letters

Charles Murray Bears No Blame

I enjoyed the interview with Manhattan Institute Senior Research Fellow Charles Murray (May 1985), but your interviewer was wrong when he stated that Murray "had been an architect of the Great Society programs of President Lyndon Johnson" in 1965. Murray spent approximately half of 1965 at Harvard, receiving his undergraduate degree in history in June of that year. He joined the Peace Corps after graduation and spent the rest of the year in Thailand as a volunteer in the Thailand Village Health and Sanitation Program. There was about a week between the time he graduated from college and volunteered for the Peace Corps, not enough time for even Charles Murray to have much of an influence on the Washington politics of the day.

William M. H. Hammett
Manhattan Institute for Policy Research
New York, NY

The editors reply: Thanks to Bill Hammett for correcting a mistake that we should have caught in editing the transcript of the taped interview with Charles Murray. And our apologies, as well, while we're setting the record straight, for failing to mention in connection with the interview the important role of the Manhattan Institute in the publication of Murray's book, *Losing Ground.* The institute not only made it possible for the author to spend a year researching and writing the book but put forth great effort to see that the pathbreaking book got into the hands of policymakers and opinion leaders.

Common Sense Isn't So Common

In "Nuclear Winter: How Much Do We Really Know?" (May), Howard Maccabee stresses the fact that common sense would be used in the distribution of atomic-weapon bursts, which would prevent the hypothesized nuclear winter. If he knows of one example of common-sense usage during the past few wars, I'd like to know about it. The event slipped by me, while my back was turned. And to show one example from the years between wars by our government would be even harder.

He even cites the fact that several government agencies have commissioned studies to address the uncertainties of the assumption that catastrophic cooling would occur. The people who would be engaged in the inquiry would be bureaucrats—and could anything intelligent ever come of their collective deliberations?...

Roy Earl Duke
Oak Harbor, WA

Let Us Keep What Is Ours

Robert Poole's comments about Social Security reform ("We Must Touch the Untouchable," May) are sound. But his figures are too low. Anyone paying the maximum amount would have paid more than the total $12,828 he mentions just in the 13 years from 1970 to 1982. Going back farther, the maximum amounts were smaller but still would have added a few thousand. More important, Poole ignores the employer's contribution, an equivalent amount that the employer could have paid directly to the employee in the form of increased salary, since this is part of the employer's payroll cost for that individual anyway. Add to that the yield on these sums over the years and you have an amount well in excess of $30,000.

Of course, the real tragedy for many of us is what we could have done with that money, rightfully ours, if we had had it in our control all those years and been able to invest it ourselves. Some of us would have built it into a comfortable amount that could yield us more than Social Security, would not be subject to the whims of the clowns in Congress, and which we could pass on to our heirs. The denial of control over what is rightfully ours is the worst crime in this scam of the century.

Grace Schuettner
Clayton, MO

letters

More Amtrak Con

Amtrak is willing to use whatever tricks might work in order to avoid having to give up taxpayer subsidies of passenger train service. But John Semmens's article ("Don't Let Amtrak Con You," May) left out one of their boldest advertising ploys: a poster, showing a photo of a bird—I think it's a seagull, the Amtrak reservations clerk I asked about it thinks it's a swan—with the caption, "Not everyone was meant to fly."

Lou Villadsen
Santa Barbara, CA

Free-Market Medicine Or Fascist Snake Oil?

Although I agree with most of what you said in your April Trends column "Heresy in the Temple of Organized Medicine," I believe you should look into the People's Medical Society more carefully before you promote it. The name should be a tip-off. While the group does have some worthy ideas, which you quoted, it also sees the crisis in malpractice insurance as a welcome entry to socialized medicine (or perhaps I should say fascist medicine, since it would be government controlled though nominal private ownership might be maintained). I think they also confuse antitechnology thinking with free-market philosophy.

There is a small group of organized medicine representing private practice called the Association of American Physicians and Surgeons (AAPS), which has been in existence for over 40 years. We have a committee of correspondence that studies delicensure. We also have an activist legal service, which is defending the liberty of contract, specifically with regard to the Deficit Reduction Act of 1984 as it amends Medicare. We would agree with you, however, that "organized medicine," namely the AMA, the American College of Physicians, and other prestigious groups, do support ideas inimical to freedom.

Jane M. Orient, M.D.
Tucson, AZ

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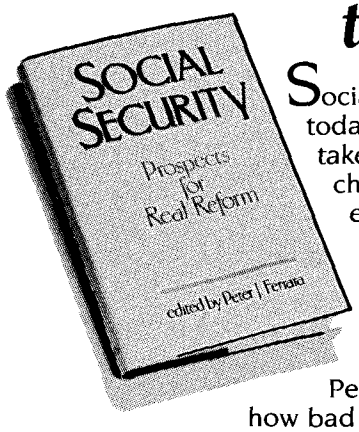
The Baby Boomers' Answer to Social Security?



Social Security is an increasingly bad deal for today's young workers. The payroll tax today takes a greater bite out of most workers' paychecks than the income tax, yet many workers will get less out of the system than they put into it. Polls show that 75 percent of young people don't trust Social Security to provide for their retirement, a fact reflected in the millions of new IRAs opened every year. In this book Peter Ferrara and other authors show just how bad a deal Social Security is and how much more a private retirement system could offer. Ferrara proposes a fundamental reform: a Super IRA that would guarantee today's elderly the benefits they are expecting, while giving young workers the option to choose a secure, private plan.

"The only realistic blueprint for dealing with the Social Security crisis." —Stephen Chapman, *Chicago Tribune*

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How Not To Privatize

Robert W. Poole, Jr.

Major premise: $200 billion annual deficits must be ended.
Minor premise: Significant tax increases are not in the cards.
Conclusion: Major cuts in federal spending are necessary.

Given this syllogism, many of us have concluded that a basic redefinition of the scope of federal government activity is required. Margaret Thatcher is divesting the British state of its commercial operations: shipyards, bus and truck lines, public housing, an airline, the telephone system. Why can't our federal government do likewise?

In fact, the Grace Commission identified hundreds of commercial activities engaged in by the federal government: producing electricity, growing timber, building and running housing projects, delivering the mail, operating airports. Surely, in capitalist America, it shouldn't be controversial to argue that the government ought not to be running *businesses.*

Yet thus far "privatization" has had tough sledding at the federal level. Back in 1981, administration economists were advocating privatization of public lands because of the benefits of private, rather than bureaucratic, ownership and management. But by the time James Watt and the bureaucrats got through with it, the proposal had been transformed into a wimpish attempt to transfer odds and ends of "surplus" federal lands—and not to the private sector, but to state governments. Now, a similar fiasco is in the making with respect to the federal government's two airports.

Yes, the *feds* own and operate Dulles International and Washington National airports. The latter, right next door to downtown, is very popular with air travelers. But it has woefully inadequate parking and terminals, and the government arbitrarily restricts both the total number of airline flights and the destinations those flights can serve, in an effort to deal with the overcrowding.

Meanwhile, Dulles Airport, far out in the country, has tremendous excess capacity but is poorly designed for some types of airline services, such as the popular hub-and-spoke operations. The Federal Aviation Administration (which operates the airport) still clings to its system of "mobile lounges" for getting people between planes and the terminal. While reducing the need for concourses, the system builds in delays, making quick transfers among an airline's flights—the key to effective hub operations—much less feasible.

Proposals for privatizing Dulles and National have been floating around for years. If the two airports were sold off to private firms, and if those firms were allowed to charge market prices for landing slots and parking, the shortages and surpluses would soon disappear. As a profit maximizer, National's owner would charge whatever the traffic would bear. After all, close-in, convenient air travel for Washington, D.C., is a premium service.

The high prices would force users to decide whether the convenience was really worth paying more; many would opt for Dulles or the nearby Baltimore airport, making those airports more viable. And the new revenue at National would permit it to build new terminals and replace inadequate parking lots with high-capacity parking garages.

Then, with more traffic and revenues, Dulles's new owner could afford to build new terminals suitable for quick transfers among planes—the sort needed to attract hub-type airline operations. In short, competition and market pricing by entrepreneurial owners would solve the grievous problems affecting airports in the Washington, D.C., area.

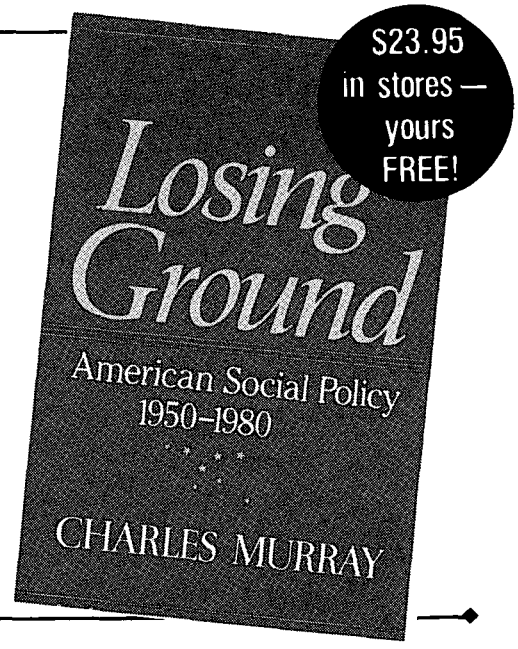
So is this what the Reagan administration is proposing? You've got to be kidding! No, the administration that talks about the "magic of the marketplace" is proposing to transfer Dulles and National to a bureaucracy created by the D.C. and Virginia governments. The sale price would be a fraction of what the airport properties are worth. The airports would be operated jointly, as a cartel, with both charging the *same* prices. "Excess" revenues from National would be used to subsidize operations at Dulles, rather than being invested in badly needed improvements at National. In short, all the problems inherent in government ownership and operation—nonmarket pricing leading to shortages and surpluses, cross-subsidization shifting money from where it is needed to where it isn't, lack of entrepreneurship—would be continued, simply at a lower level of government.

Where did the geniuses at the Transportation Department get this brilliant scheme? From none other than that paragon of capitalist virtue, the Grace Commission. The task force of business leaders assigned to look at the government's two airports "investigated" the situation . . . meaning they went and talked to bureaucrats.

They spoke with officials at the Federal Aviation Administration, with the trade association of government airport operators, and with aviation interest groups. All of these people prefer the comfortable status quo to the unknown terrors of the competitive marketplace. So they bamboozled the task force into believing such hokum as this: that airports are essentially "public utilities" and therefore should be government-owned (never mind that most electric, gas, and telephone utilities in this country are privately owned!), that landing fees should be set to just cover costs on a break-even basis, and that competition between airports is not feasible. Decades of serious study by economists and

"Murray...has finally and unanswerably demolished both the moral and the practical claims of the welfare state"

—GEORGE GILDER, *The American Spectator*



This breakthrough book is making conservatives purr and liberals squirm . . .

"Murray's book, relentlessly logical and well-documented, should convince any serious reader that it must at least be squarely faced. . . . The heart of the book, the best and most devastating part, is a long compilation of data meant to prove that the poor have done worse as government programs aimed at them have flowered. It is especially uncomfortable reading because the case is made by comparing blacks to whites. . . . No doubt that racists will love Murray's book. So what? When millions of people are suffering, it seems irresponsible for the left to expend its intellectual energies on these blame-shifting exercises. . . . his is a vision that coheres, as the left's on this subject doesn't any more. . . . This is the problem that liberals must address; Murray's book in effect throws down the gauntlet to them. The standard responses (most of which Murray neatly sets up and demolishes) won't do, because they don't offer real hope of a solution."—*New Republic*

"Irrefutable."—John Chamberlain, syndicated column

"Without bile and without rhetoric, it lays out a stark truth that must be faced."—*Business Week*

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"Murray unabashedly asserts that slashing social spending is the greatest favor the Government can bestow upon the poor. . . . Conservatives have made that argument before, but no one has documented it as thoroughly as Murray does."—*Time*

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public-choice theorists were simply ignored.

The task force also cited the experience of Lockheed Corporation, which until 1978 owned and operated the Burbank Airport (which it then sold to a group of cities). The fact that Lockheed got out of the business "proves" that no one would bid on Dulles and National, said the task force. Yet the main reasons Lockheed sold no longer apply.

Back then, grants for airport improvements from the federal trust fund were available only to government-owned airports, putting Lockheed at a major competitive disadvantage. That restriction was repealed the next year. In addition, tax-exempt industrial development bonds—important in airport facility construction—were not then commonly used for privately owned projects, as they are today. Privately owned airports are no longer at a competition disadvantage, except for paying property taxes, which is a normal business cost.

Ironically, it is what used to be called "socialist Britain" that may show the way on airport privatization. The Thatcher government has already announced plans to privatize the British Airports Authority. The only question remaining is whether it will be sold as a unit or be broken up into its component airports (Heathrow, Gatwick, etc.). Two separate British think-tank studies have urged the latter course, arguing that *competitive* privatization would serve consumers far better than continued cartelization of airports.

It is true that most commercial airports in this country are now operated by government agencies, using nonmarket pricing. It is also true that the federal government has a unique opportunity to demonstrate a *better* way to operate airports—as enterprises competing in the marketplace. To impose such a model on existing city- or state-owned airports would raise troubling issues of federalism. But to design the divestiture of the federally owned airports as a demonstration project in true privatization is well within the government's prerogative.

Privatization offers immense potential for reducing the size and scope—and therefore the cost—of the federal government. But true privatization does *not* mean simply replacing one level of bureaucratic management with another. It means understanding *why* government operation is inappropriate and putting commercial activities into the marketplace where they belong.

The Defense Difference

Tibor R. Machan

"Defense spending should not be exempt from action taken to reduce the deficit." So proclaimed a resolution recently passed by the National Conference of State Legislatures. It reflects the ongoing debate, ever since Ronald Reagan started talking budget cuts, over defense spending versus "social spending."

While our representatives in Washington debate this issue, it behooves us to remember one simple fact: defense is the federal government's primary obligation. Our government was established to secure our rights, not to provide us with welfare. If these rights are secured, we can provide for our own welfare. If they are not secured, then the question of human welfare is moot.

Comparing military spending with social spending is like comparing apples with oranges—no, apples with volcanos. Government's business is equipping itself to fight wars against domestic and foreign criminals—those who would murder, assault, and steal from its citizens. That is the reason for government's existence. The rest is extra—indeed, an exercise in futility and fraud.

Even those who do not dispute the moral authority and right of governments to take from Peter to give to Paul, to try to help science, education, medicine, farming, the indigent, the aesthetically inclined, and everyone else, must see one matter clearly enough. Government's military mission is different from the rest. National defense benefits all of us and precisely fits the expertise of government. Government uses force as its job—cops and soldiers are trained to fight and the rest of government is trained to tell them whom to fight.

The citizens teach, design computers, publish books, write columns, type manuscripts, dig ditches, perform operations, clean hallways, and in innumerable other ways promote the general welfare. The welfare state is superfluous; we are already doing quite well and would do even better without government's help.

The general welfare—what government social spending is supposed to advance—is something citizens can promote without government. But national defense is different. Therefore cutting defense spending is a very different kind of question from whether we should cut social spending. It is roughly like the question of whether a city should give up its police or its public parks.

This isn't to say that defense spending is too low or too high. Such spending can be wasteful, as the Grace Commission has shown. But it is also possible, as Steven Kelman of Harvard's JFK School of Government argued in *The Public Interest*, that the horror stories about sums spent by the Pentagon on hammers and wrenches look different when one notes that the prices paid for them include overhead costs. Perhaps the Defense Department isn't as mismanaged as the media would have us believe. Indeed, defense spending increases may even be justified.

Be that as it may, defense spending is fundamentally different from social spending. Those who do not recognize the distinction misconceive the budget debate. ◧

notes

The deadline has passed and the entries are in for REASON's First Quadrennial Waste, Fraud, and Abuse Contest. The result: a resounding vote of confidence in our elected spendthrifts and a set of predictions guaranteed to bring a smile to Tip O'Neill's lips.

You may recall that we announced the contest in our May issue. The object was to guess the administration's initial budget request for fiscal year 1989. First prize is two complimentary tickets to the Reason Foundation's 20th Anniversary Banquet, a swanky affair expected to be held in the spring of 1988. Second prize is the sheet music for "Hey, Big Spender."

The lowest estimate was submitted (well, not directly to us) by one Ronald Reagan, who took a stab in the dark and hit $1.26 trillion. The next most optimistic guess was nearly $100 billion more,

notes

and the bulk of the entries fell into the $1.5-1.7 trillion range. One particularly pessimistic (or realistic?) reader predicted a fiscal 1989 budget request of over $11 trillion. Does she know something we don't know?

Winners will be announced on April 15, 1988. You already know who the losers are going to be. Stay tuned.

Late in May, REASON author Jack Wheeler put into action an idea he's had—to bring together the leaders of the anti-Soviet guerrilla movements he's been reporting on over the past 18 months. Under the auspices of Citizens for America (CFA), Jack organized the world's first congress of these leaders, at Jamba, Angola, the site of a guerrilla camp. Among those addressing the meeting was CFA chairman Lew Lehrman. Sessions were scheduled on military tactics and fund-raising, among other topics. According to *Newsweek*, the event was arranged without the knowledge or approval of the State Department but with "tacit" White House endorsement.

Home schooling and the difficulties encountered by people who seek to educate their children at home was the subject of a REASON investigation several years ago ("Home Schooling: Up from Underground," April 1983). We have continued to monitor this field and are pleased to let you know of a useful new service if you are a home-schooler or are thinking about it. *The Home Education Reporter* is a service that monitors state compulsory education laws and regulations and keeps track of court cases. For $25, you can receive a complete assessment of the situation in your state, plus four quarterly updates. (If you want the complete 50-state package, it's $350.) The materials can be obtained from the Rutherford Institute, Box 510, Manassas, VA 22110.

Ayn Rand fans among REASON readers: According to a brief item in *TV Guide*, MGM and United Artists have a "dream project": a TV movie of Rand's novel *The Fountainhead*, starring Tom Selleck and Jaclyn Smith. *TV Guide* reported that agents for both stars confirmed that they have been approached, but so far neither has been signed up.

—R.W.P.

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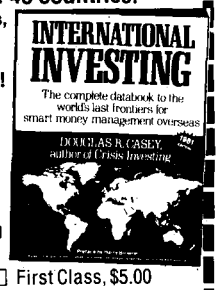
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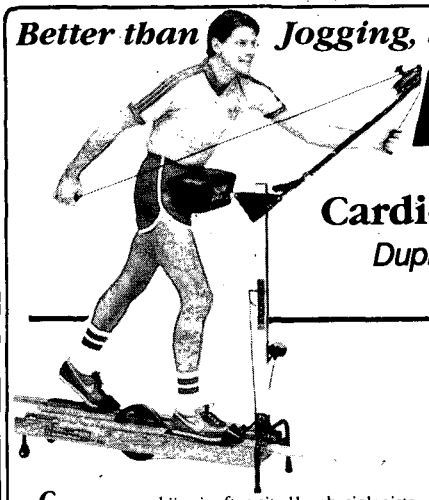

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brickbats

Federal District Judge Charles L. Brieant wouldn't tolerate any whining by New York State grape growers. He struck down as unconstitutional a law allowing grocery stores to sell a diluted wine drink only if the drink is made from New York grapes. "This is plain and simple economic protectionism...at the expense of out-of-state grapes, and a violation of the commerce clause" of the US Constitution, the judge said. Gov. Mario Cuomo says the state will appeal because the New York wine industry is in trouble. Sour grapes?

Is everything up to date in Kansas City? Well, as part of its tax-enforcement program, the county sheriff tried to serve a summons on Siegfried St. Bernard for $7,300 in back taxes. The only problem is that Siegfried was a real St. Bernard—of the dog variety. The animal died in 1978. Somehow, county tax records indicated that a Siegfried St. Bernard had been on the tax rolls since 1980 but had never paid any tax. Officials couldn't explain how a dead dog got on the tax rolls.

"The check is in the mail." One of the three big lies, right? Well, it really happened. One of Uncle Snail's Postal Service branch offices in Dallas has been evicted from the building it's used since 1956—because the rent check got caught in the Christmas rush. The landlord was unsympathetic and won a court order evicting the post office from his building. Poetic justice.

What some people will do to avoid taxes! Two shrewd Norwegians cut their brand-new BMW in half to slash about $6,600 in customs duty by importing the luxury car as junk. They bought the car in West Germany. The two men reportedly plan to weld the front half to the back part of an identical car already in Norway, and vice versa. Great idea, but will it run?

What's in a name? Maybe your life. Security forces are reported to have killed as many as 100 ethnic Turks during roundups to force them to adopt Bulgarian names. Villagers in the ethnic Turk region were presented with forms already filled out with names, often bearing no resemblance to their real names, and were told to sign. As protests mounted, troops were called in, things got a little ugly, and the troops opened fire. Although ethnic Turks represent 9 percent of Bulgaria's population, only one Turk is on the 192-member Central Committee. He adopted a Bulgarian name a long time ago.

The chickens coming home to roost? The Atlanta office of the US Commission on Civil Rights willfully discriminated against a female employee by paying her less than two male coworkers with nearly identical jobs, a judge has ruled. The commission was found guilty of violating the Federal Equal Pay Act and ordered to pay the woman, Miriam Nalebuff Grayboff, double the difference in back pay owed her for the last 15 months she worked at the agency, or approximately $26,000. Mrs. Grayboff was an equal-opportunity specialist who worked closely with public officials, news organizations, and citizen's advisory committees set up by the commission in southern states to monitor civil-rights concerns.

Just because he repeatedly threatened a four-year-old boy with handcuffs, jail, and punishment from God if he did not tell the truth doesn't make Louis Grossman a bad guy. That's the opinion of a New York State commission on judicial conduct that censured the acting state supreme court justice for his actions during a divorce proceeding. A censure means that Grossman gets to keep his job and the $65,000 he makes every year. Grossman took the child into his chambers and grilled him for four hours after the youngster said someone had told him his father could "fix" the judge. "Do you know what happens to boys that lie?" the judge asked the frightened child. "They go to jail, and they're not going to come out." But 5 of the 11 judicial commission members thought that censure was too harsh a penalty for the threatening judge.

The right to wear a cowboy hat is constitutionally protected, says a federal suit filed by a Colorado state prison inmate. Paul Luna Vasquez, 29, serving 25 to 40 years for manslaughter and other charges, says the state violated his rights by confiscating his hat.

—Mark Edward Crane

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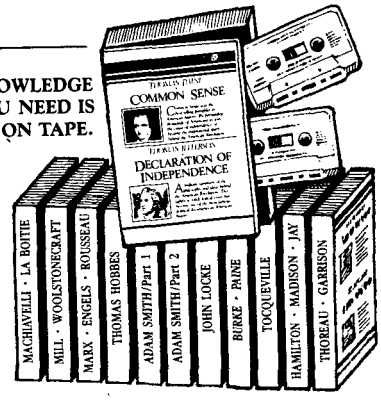

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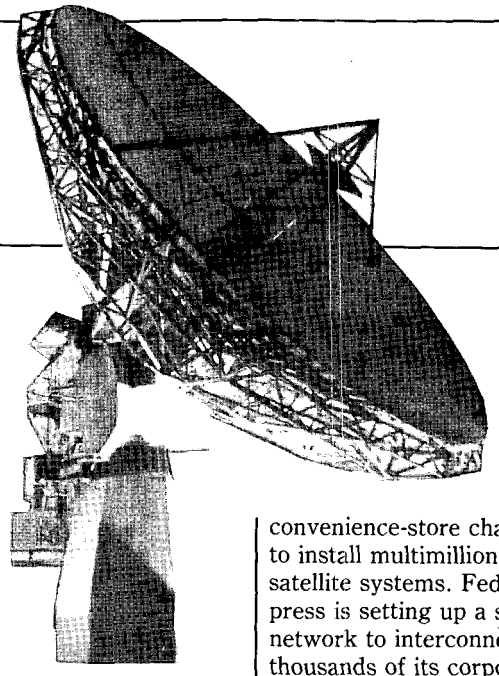

The Bell's Tolling For Local Phone Monopolies

Another nail has been driven into the coffin of local phone monopolies. In May, American Telephone and Telegraph (AT&T) for the first time said it would "bypass" one of its former local phone companies: later this year it will directly connect long-distance service to Merrill Lynch's new Manhattan headquarters without going through the local phone company, New York Telephone (NYT), an AT&T unit until the 1984 AT&T divestiture that spun off all of the company's local phone operations.

Projected cost savings is the primary reason for the bypass arrangement. Because the setup won't use NYT lines, AT&T won't have to pay the huge "access fees" that local phone companies charge to connect long-distance service to a customer's phone lines.

But Merrill Lynch is far from alone. This summer, for example, Dow Jones & Co. is installing a telecommunications line directly between its Princeton, New Jersey, and Manhattan offices, bypassing the local phone monopolies at both ends. The *New York Times* reported recently that in a survey of 400 of New York Telephone's largest customers, "17 percent said they plan to have bypass systems by year-end." And the New York research agency the Conference Board reported that of 348 companies it surveyed, some 80 percent already have or plan to install a bypass system.

Many of these firms—as in the Merrill Lynch and Dow Jones setups—will use the services of a "teleport," a kind of telecommunications hub. In the Merrill Lynch arrangement, for instance, the Staten Island–based Teleport Communications will shuttle phone signals via fiber-optic cable between Merrill Lynch's offices and AT&T's long-distance lines.

This type of direct competition for local service—especially for that of heavy phone users—poses a major threat to the local phone monopolies. And it's not going to go away. "More than 25 teleports are now in operation, under construction or in the planning stage across the United States and Canada," *Nation's Business* magazine recently reported. And last year, teleport operators formed a trade group, the American Teleport Association.

One major activity of teleports is to send, receive, and distribute communications via satellite. This fast-developing technology, in fact, is a significant factor in the bypass trend. Major companies with many retail outlets or outlying operations are setting up their own private satellite networks, both to improve their communications and to cut its costs. For instance, both Wal-Mart Corporation and Southland Corporation (owner of the Seven-Eleven convenience-store chain) plan to install multimillion-dollar satellite systems. Federal Express is setting up a satellite network to interconnect thousands of its corporate ZapMail customers. And Farmers Insurance Group has already started to connect its 3,000 sales agents and 170 claims offices via satellite to its Los Angeles headquarters, expecting to cut its phone bill by $1 million annually.

The bypass trend has put local phone monopolies between the rock of increasing competition and the hard place of a regulatory system out of sync with the new communications age. Something's got to give, and signs are that it will be that venerable institution that everybody loves to hate, the local phone monopoly.

Military Experts Volunteer Objections To the Draft

Twelve years after the institution of an all-volunteer military, there are continuing calls for reinstating the draft system that had reigned until 1973. But some military officials are making life difficult for draft supporters by going on record with their assessment that a draft is *not* necessary.

"I really don't see a need for a draft in the near term," Gen. John Wickham, the Army's chief of staff, recently told the *New York Times*. And Lawrence Korb, the Pentagon's senior personnel official, has been opposed to the draft for some time.

Wickham and Korb don't speak for the record about the moral inelegance of slave labor. But they're convinced of its high price and inefficiency. Training costs are far higher in a military of draftees than in an all-volunteer military, because draftees are quite likely to leave the military as soon as they can. Korb told the *Times* that in the past, about half of all volunteers have reenlisted, while only about a tenth of draftees stay in the military. Because of that high turnover, Wickham believes that a return to the draft would require enlarging the Army alone from 781,000 to 850,000 to compensate for all the new soldiers who would be in training at any given time.

It's significant that Korb and Wickham are publicly supporting the all-volunteer military at a time when the draft's supporters are warning of dire days ahead. Draft supporters cite a recent survey indicating that the number of young people who say they might enlist in the military declined from a range of 33-36 percent in the 1980-83 period to under 30 percent in 1984. Moreover, the supporters of the draft also point to Census Bureau reports that the number of draft-age men in the population started declining in 1979 and will continue to go down until 1992.

But Korb, for one, has concluded that these aren't sufficient reasons to bring the draft back. Not only are retention rates currently

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high, but the military is attracting a comfortably large percentage of high-school graduates (92 percent) among its recruits. "We've managed pretty well," he told the *Times*, "and I think we can manage until 1992."

Not content with such expert counsel, conservative Sen. Ernest Hollings (D-S.C.) has introduced legislation that would reinstate the draft. Meanwhile, Gen. Bernard Rogers, who commands US forces in Europe, has called for an end to the all-volunteer force. (Ironically, Rogers commands 300,000 US troops that were never meant to be permanently stationed in Europe—see "Standing Guard over Europe," REASON, Aug. 1984.)

It's too early to know how much mischief Hollings, Rogers, and their ilk will make. But the facts are there: the all-volunteer military is working well, and those in the know believe it will continue to work well in the future. The system that does not infringe individual liberty is also quite practical.

Clear Thinking Overtaking Takeover Controversy

Whether it's Ted Turner eyeing CBS or oilman T. Boone Pickens licking his chops over Unocal, a day doesn't go by, it seems, that someone isn't trying to take control of some big, established corporation whose managers don't want it to be acquired. "Hostile takeovers," they're called, and a lot of people are getting quite exercised about the supposed evils of it all.

They worry that all the money behind both the takeover bids and the target companies' efforts to stave off acquisition is being diverted from more-productive uses. They worry, too, that company managers, in jitters about the takeover specter, will concentrate on short-term earnings—to the detriment of investment in research and development—in order to dissuade takeover bids: strong short-term earnings, so the alarmists' theory goes, serve to boost the company's stock's value; this will keep the company from being perceived as "undervalued," a prerequisite for most takeover efforts. They also worry that an increasingly common method of financing hostile-takeover efforts—"junk bonds" (corporate bonds that pay a relatively high rate of interest because of the low credit rating of the company issuing the bond) threaten to wreak havoc and widespread loss throughout the financial markets.

The anti-takeover rhetoric is flying high and swift, and a number of federal legislators have introduced bills that would slap heavy restrictions on corporate takeovers. Yet behind all the talk there is little substance. Analysts have lately produced a number of cogent arguments and powerful data that strongly contradict the alarmist hype.

Concern that takeovers somehow divert scarce funds away from productive investments, for instance, is simply convoluted thinking. *Fortune* magazine writer Aloysius Ehrbar, in a recent article on the takeover issue, helped untwist that notion. The money that "acquirers pay for companies goes to shareholders, few of whom, it seems safe to assume, tuck it under their mattresses. The only money that moves out of the savings pool is what individual shareholders spend on consumption, and even that stimulates the economy and ultimately leads to investment."

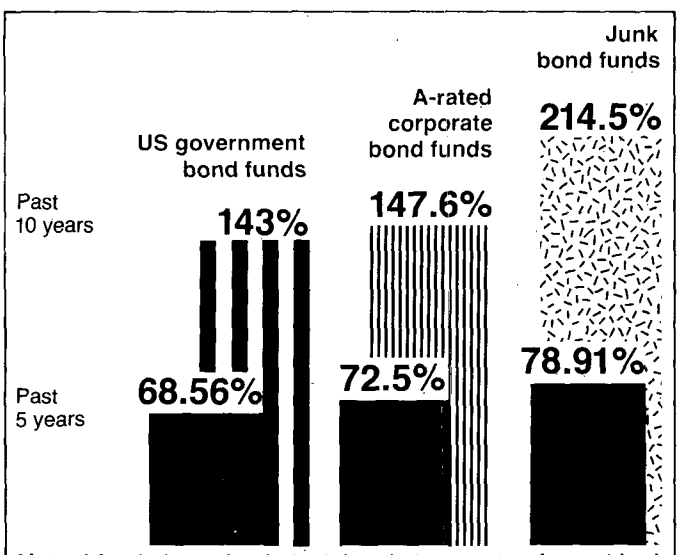
What about the claim that takeover-spooked managers will focus on short-term earnings and neglect R&D? In the *Wall Street Journal* in May, economists Gregg Jarrell and Kenneth Lehn of the Securities and Exchange Commission reported that, according to their study of 1980-83 information about more than 300 companies, investors actually showed "a noticeable preference for firms with increasing R&D expenditures." Moreover, in the 1980s, firms targeted for takeovers "are characterized by very low R&D expenditures."

Fortune's Ehrbar summed up the drift of such evidence: "Managers who crimp on capital spending and R&D in order to boost short-run earnings are likely to push their stock price down, not up." This, of course, would make a company *more* vulnerable to a takeover. Indeed, wrote Ehrbar, "there is little convincing evidence that fear of takeovers has in fact caused large numbers of companies to slight future growth for the sake of short-run profits."

As for the worry that "junk-bond" financing of takeover bids will cause major financial problems, again the data don't support the concern. On the contrary, *Fortune* writer John J. Curran recently reported, "mutual funds that played a junk-bond hand far outperformed those that bought U.S. government bonds or A-rated corporate bonds over the past five and ten years." Over the past 10 years, junk-bond funds yielded a 214.5 percent return on investment, while corporate-bond funds returned 147.6 percent, and US government-bond funds, 143 percent.

Against the alarmist portrayal of hostile takeovers as a sordid drama in which wicked predators use scam-like methods to acquire established firms, break them up, and sell the pieces for a quick profit, there is a more-sophisticated and studied view of the process. From this other perspective, extensively elaborated by econo-

Return on investment



Mutual funds investing in junk bonds have outperformed both US government bonds and high-grade corporate bonds over the last 5 and 10 years.

mist Henry G. Manne of the Law and Economics Center at Emory University, hostile takeovers occur because some individual or individuals believe that a corporation is underperforming—not earning its shareholders the best return on their investment, that is—and therefore try to gain control of the firm. Such competition for corporate control, Manne and others argue, in fact keeps managers in general on their toes, spurring them to increase their company's efficiency—and those who fail will be ousted by others who think they can do a better job.

If, however, the government prohibits or impedes the functioning of this mechanism, many more companies would go the way of those that, by their very inability to perform up to par, have become today's takeover targets. Fortunately, more and more people appear to be appreciating that point. Now if only policymakers would hear the message.

Doubts about Social Security Come of Age

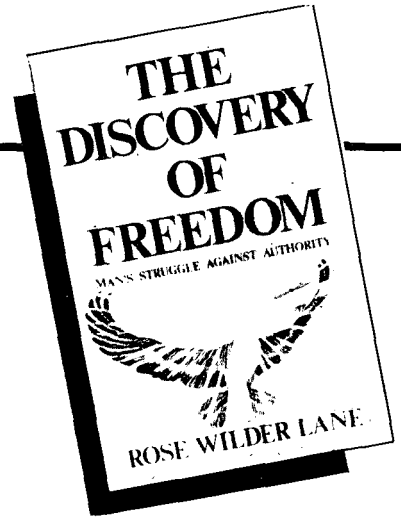
The Social Security system has always had its opponents in principle—people who object to such involuntary, redistributionist programs. And Social Security from time to time has had reform-minded critics, whose voices wax and wane with the system's financial health. But with a growing portion of the population—now 28 percent, according to Census Bureau data—getting some income from the system, the political chances of change have been dim.

Enter a new group, Americans for Generational Equity, with the potential of tapping a large constituency for rethinking Social Security. The data behind the group's name are increasingly discussed.

A premise of popular support for Social Security has been that it helps mostly elderly people who need help, drawing from the pockets of younger, working people who can afford the tax burden. But both sides of the equation are off.

Recipients aren't all nearly as poor as many people believe. The elderly are the vast majority of Social Security's recipients, and according to Census Bureau data, the percentage living below the poverty level dropped from 24 percent in 1970 to 14 percent in 1983. And Paul Hewitt, an aide to Sen. David Durenburger (R-Minn.) and the president of Americans for Generational Equity, reports that about 25 percent of all Social Security payments go to families with annual incomes over $30,000.

On the other side of the equation is the fact that the baby-boom generation, now bearing the brunt of the growing tax burden of Social Security, isn't nearly so well off as the imagery implies. In a *Wall Street Journal* editorial-page essay, Phillip Longman recently compared the economic lot of baby-boomers with that of their parents. He noted that for families headed by a person 25 to 34 years old, real after-tax income *declined* 2.3 percent from 1961 to 1982. This is despite the fact that mar-



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trends

ried couples in that age group are much more likely now to have two paychecks rather than one coming in, since labor-force participation by married women 25 to 34 has grown from 29 percent in 1961 to 62 percent.

There are other measures of decline for this age group. Longman noted that "in relative terms, starting wages for both sexes have never been lower." And their purchasing power is down. A young family in the 1950s with a median income—often with just one wage earner—could comfortably purchase their own home. But by 1983 it took two incomes for more than 65 percent of first-time home buyers.

Faced with such figures, some people are starting to fight fire with fire—or, more literally, to fight over-65 lobbies like the powerful American Association of Retired Persons with a new baby-boom membership organization, Americans for Generational Equity (AGE). The group plans to develop positions and conduct original research on the budget deficit, entitlements for the elderly, and other issues where the interests of young people are often neglected unfairly.

To a large extent, the politics of AGE don't surmount the statism that underlies Social Security. For instance, the group obliquely condemns the government for not spending more on dams, bridges, and roads. Yet its formation reflects a growing dissatisfaction with New Deal solutions, and mobilizing the people who are penalized by the system may be an effective first step on the road toward retirement support more consistent with a free society.

Private Business Takes the Driver's Seat In Mass Transit

Private businesses now operate 3-5 percent of all mass transit, up from just 1 percent in 1981. There are some 100 private mass-transit bus companies nationwide. Four hundred firms operate van services.

In Dallas, the *New York Times* recently reported, the rapid-transit agency contracted out operation of an 80-bus express service to Trailways bus line last year. In Glendale, California, the local government has hired a private company to operate a shoppers' shuttle, and the Lexington, Kentucky, transit agency has contracted with private operators for rural and weekend service. Dade County, Florida's transit agency has set up private routes in Homestead and Florida City. And, the *Times* reported, the Los Angeles County Transportation Commission has announced that it will hire private operators for a shuttle service and for a new park-and-ride route.

Private-sector involvement in transit is even extending beyond operation of routes. "Private investors are becoming involved in financing the development of systems," the *Times* reported. "In Washington, D.C., private investors have proposed a rapid rail system to Dulles Airport."

Much of the shift to privatization comes from a deliberate push by the Reagan administration to encourage greater private-sector provision of transit. The administration is cutting back federal subsidies to

global trends

Denationalization South of the Border

MEXICO CITY, MEXICO—Mexico continues down a denationalization road. The trend began last fall, when over 100 state-owned firms were sold back to the private sector. In February the federal government took another big step when it announced the sale of 202 more firms and the closing of 32 others. This measure comes in the midst of Mexico's most severe economic recession in 60 years. Its proponents hope to mitigate growing dissatisfaction with many of the socialist-leaning policies that characterized the past two administrations, of Luis Echeverria and José Lopez Portillo, whose shadow still haunts President Miguel de la Madrid.

The sale is part of an emergency spending-reduction package—a response to increasing gaps between the government's professed goals for the economy and its actual performance. Unemployment and taxation rates are at all-time highs, inflation is far from being controlled (it now stands at an annual rate of 70 percent, made worse by a 25 percent ongoing currency devaluation), and the Mexican political atmosphere is heating up. Scattered rioting has already occurred in the northern areas, which are traditionally volatile. The government hopes that the sale of more of its so-called "parastate enterprises"—all of which operate at a loss—will appease some of the more free-enterprise factions while at the same time alleviating budgetary constraints.

The firms in question are in various areas of the economy. Hotels, sugar refineries, tile and soft-drink manufacturers, real-estate promoters, textile factories, tobacco wholesalers, bookstores, and household-appliance companies are all included on the list. Even though they are by no means among the largest state-owned ventures in Mexico, their transfer to the private sector is seen by many as an indication of future sales of many others.

At the least, the transfer is a signal from the present administration that from now on, the government's role in the economy will be limited to certain primary areas. Carlos Salinas, the secretary of Budget and Programming, has said that "the government has no intention of abandoning its exclusive role in such strategic areas as telecommunications, the oil and energy sectors, banking, transportation, and [prime] industrial materials." But denationalization of "non-strategic companies" that operate at a loss, he said, "does not interfere with our function of developing the country. We would rather build roads, schools, hospitals, steel companies."

There is a way that denationalization could go wrong, however: no one may actually purchase the firms in question. They are not financially sound ventures, and they're being offered for sale at a time when most prospective investors in Mexico are

(Continued on page 18)

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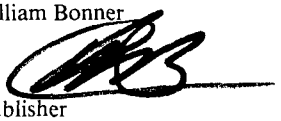

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transit systems—from $1.1 billion in 1980 to $870 million in 1985—with the goal of eventually ending all federal operating subsidies and cutting capital subsidies in half.

In addition, a recently enacted policy of the Urban Mass Transportation Administration (UMTA), the office that controls federal transit aid, requires governments and agencies that receive federal funds to allow private firms to bid on contracts to serve any new or reorganized transit routes or facilities.

Ralph Stanley, head of UMTA, recently commented, "We see privatization as the wave of the future. We think the time has come for demonopolization and flexibility." The reason is clear: private transit operation is more efficient than government-run systems. Data from the growing private transit industry support the claim. For instance, one private Westchester County, New York, bus line operates at a cost of $3.18 per mile, while a government line in New York's Nassau County costs $4.09 a mile to operate. Even more telling is the fact that, nationally, government transit systems cover only 40 percent of their costs through fares.

Despite the testimony of both evidence and economic logic, many public transit officials still spout skepticism about private companies' ability or interest in operating urban transit systems. Perhaps they should take a look at Argentina's *colectivos.*

In operation since 1928, colectivos are private, unsubsidized buses, able to seat 21 passengers, that offer a common, colorful sight on Argentina's streets. In Buenos Aires, for example, 11,000 of the brightly decorated colectivos—in addition to 30,000 taxis, most owned by their drivers—offer "cheap and efficient transportation," as a *Los Angeles Times* correspondent recently reported. "City governments used to run their own red-ink bus lines in Argentina," *Times* reporter William D. Montalbano wrote, "but they have all surrendered to the colectivo."

More than 300 companies, most of them professionally managed corporations, run colectivos in Buenos Aires. In 1984, Montalbano reported, the buses "carried 2.5 billion passengers and provided 52% of all urban transportation." The companies make money year in and year out, no matter what the economy is doing—in Argentina's economically bad year 1983-84, one company, for instance, paid its shareholders a 5.7 percent dividend on gross revenues.

Why are the colectivos so successful? One industry spokesman offered an explanation: "We are good managers. That is the only secret. People who run the lines are close to their operations. They are agile, and they are decisive."

Our bet is that American entrepreneurs, given a similar opportunity, could say the same thing.

The Rights Way to Own The Airwaves

It's commonly assumed as part of the US government's regulatory claim over

global trends

(Continued from page 16)
out of cash, lack confidence, or have already committed their resources elsewhere—most notably, in the sale of state-run firms in 1984.

Possible renationalization is also a concern. Jorge Kahwagi, vice-president of the National Chamber of Industry, says "the sale of these firms is a historic measure; but it will be to no avail unless the government clearly defines, once and for all, which areas are meant for it and which for private enterprise, so that we may proceed without fear of unfair competition or nationalizations."

So some analysts see the government sale as a big gamble. "The lack of confidence and inflation are the principal problems of the Mexican economy," writes Mexican economist and author Luis Pazos, "and both have their origin in the excessive share and control of the public sector of the economy. Thus, the way in which the announced spending cuts and sale of firms are carried out may bring either a genuine rebirth of confidence or its complete demise."

Then again, if Mexico's problem is indeed the size of its public sector—and it very probably is—then the sale of state-owned firms or, alternatively, their liquidation, does not constitute a gamble. It is the only way to go.

—Julio Marquez

Supply-Side Indian Style

NEW DELHI—It may be only a slight exaggeration to call him the Art Laffer of New Delhi. But undoubtedly Prime Minister Rajiv Gandhi, since taking office in late 1984 after the assassination of his mother, Indira Gandhi, is aggressively instigating what *Asian Wall Street Journal* editor Paul Gigot recently called a "supply-side revolution"—a dramatic policy shift away from India's 40-year journey down the planned-economy road.

Also reporting on the phenomenon recently, *The Economist* detailed Gandhi's moves toward liberalizing India's economy. He has, for example, cut tax rates: the maximum income-tax rate is down from 62 percent to 50 percent; corporate taxes now range from 50 to 60 percent rather than 55 to 70 percent; and more cuts are planned for next year. Many import duties have been reduced, and various licensing and regulatory restrictions have been eased or removed.

And already, the supply-side strategy appears to be paying off. Though deficit spending is still high, wholesale and consumer prices, for instance, have recently risen at rates about one-half to two-thirds lower than those last year. The economy is growing at an encouraging rate of 4 percent a year, and the Indian stock market is booming. Indian businessmen are eagerly—if perhaps incredulously—embracing the new policies.

Rajiv Gandhi is reportedly committed to taking supply-side reforms considerably further. And if his economic revolution continues with success, the impact may well extend beyond India itself. As *Asian Wall Street Journal* editor Gigot remarked, "If India—polyglot, poor, non-aligned India—grows with market policies, state planning may have only the Soviets left to recommend it."

the broadcast media that the airwaves are "public property"—that they are owned by "the people" and the government serves as steward. This widespread notion, it appears, is a misconception.

Attorney Erwin Krasnow, an expert in communications law, recently wrote in a *Washington Times* op-ed article that "the concept of public 'ownership' of the airwaves is demonstrably at odds with Congress's intent in enacting the Radio Act of 1927 and the Communications Act of 1934." In fact, Krasnow reported, "When enacting the Radio Act of 1927, the Congress specifically deleted a House-passed declaration of ownership." And Krasnow quotes a statement by one of the act's co-authors, Sen. Clarence Dill: "The government does not own the frequencies. . . or the use of the frequencies."

Nonetheless, the government undeniably claims the power to *regulate* the airwaves, including the authority to allocate frequencies among users. Historically, the government has allotted frequencies either on a first-come, first-served basis or through a lottery. Both methods, however, risk inefficient use of the airwaves. Recognizing this, free-market economists have long suggested a *market*-based system of allocation, whereby rights to specific frequencies can easily move from less- to more-efficient users. The way to do this, they say, is to make rights to frequency use private property that can be freely bought and sold in the marketplace.

There are signs that this idea may be catching on. The British government, for example, recently commissioned a study of the various benefits of bringing market forces and the price mechanism to the allocation of radio frequencies. And in the United States, Mark Fowler, chairman of the Federal Communications Commission, has proposed auctioning frequencies for cellular radio and other communications services (though not for radio and TV licenses).

In recent congressional testimony, Fowler noted the lamentable results of trying to select cellular-radio operators by lotteries. The process has turned into something of a "sweepstakes," he said, in which entrants submit multiple applications—perhaps under names of various family members and friends—thus trying to increase their chances of winning. Fowler suggested to the congressional committee that auctioning the cellular rights to the highest bidders not only would streamline the selection process but would get those rights into the hands of the most-efficient users.

Fowler's on the right track. What he ought next to consider is allowing such rights to be bought and sold, thus assuring that they will be put to the most efficient use over time.

—Robert W. Poole, Jr., Paul Gordon, and Eric Martí

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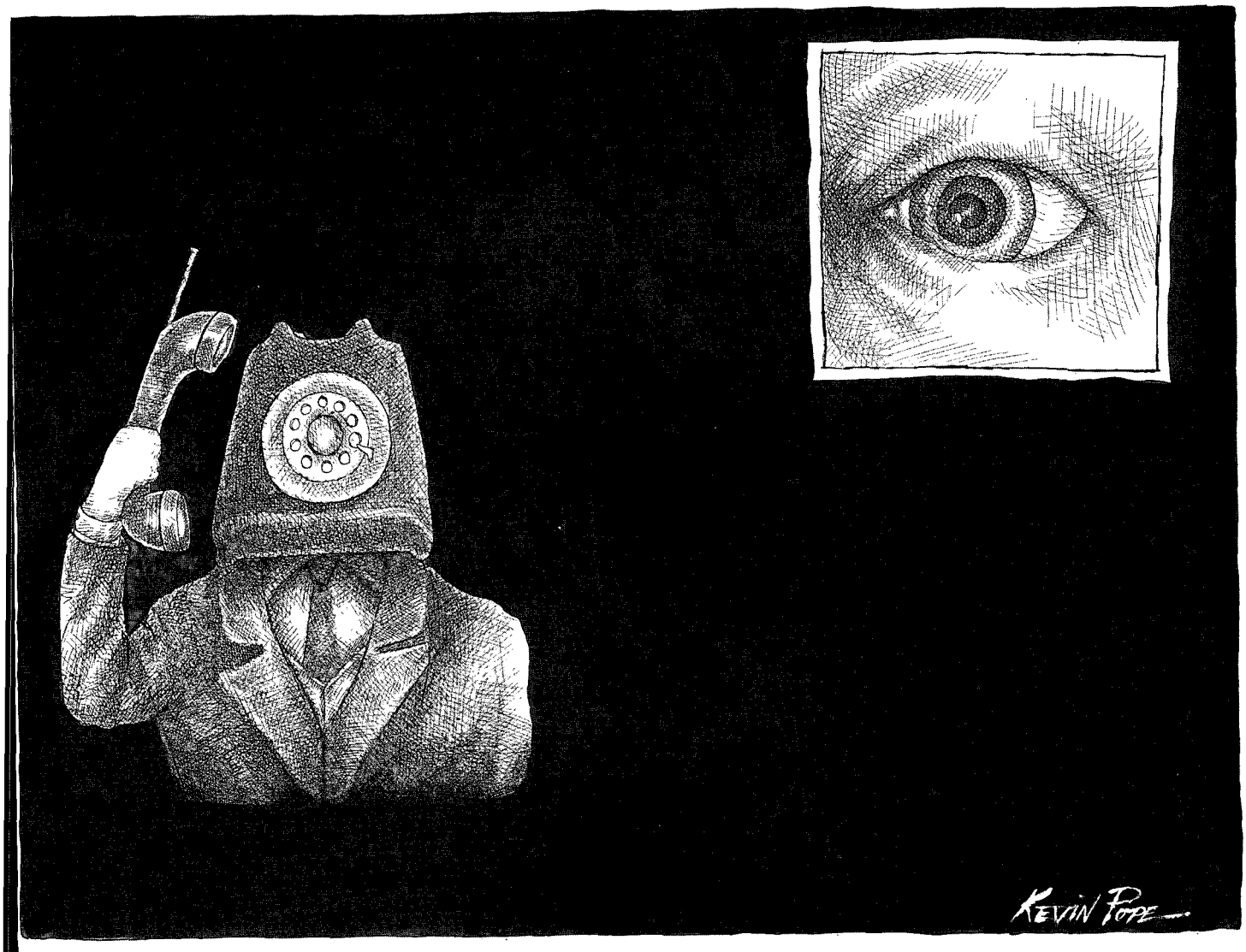
Wireless Tapping

It used to be the first thing you'd see in the Sunday funnies: the square-jawed visage of Dick Tracy, speaking into a "two-way wrist radio." The fictional detective has become a cliché in the new age of high-tech communications. In fact, many observers proclaim that the technology of cellular mobile radio telephones will make the widespread availability of two-way wrist radios a reality. And ITT even used Dick Tracy's image to advertise new telecommunications developments.

This symbol might have more relevance to the cellular age than is commonly thought. The technology promises to make widely available pocket- or wristwatch-size telephones—current cellular phones are slightly bigger than ordinary ones—but it also may make possible special uses by the police. Cellular telephones could conceivably become one of the new law-enforcement tools of the '80s and beyond.

This possibility raises disturbing questions about citizens' constitutional right to privacy and their ability to protect that right. Given the fast pace of technological change and the comparatively slow pace of legal change, technology promises to outstrip the law. How, then, can individual privacy survive the threat of growing government intrusion in the new communications age? The question is vitally important for a free society. The most promising immediate answer lies not only in the courts and the legislatures but in another essential institution of a free society: the marketplace. Communications firms will help privacy survive the new com-

by Robert L. Corn



ILLUSTRATIONS•KEVIN POPE

The new communications technology has brought us mobile phones and two-way wrist radios — and new threats to our privacy that will require innovative solutions.

munications age, if they realize that to attract and keep customers they must implement and improve ways to safeguard confidential customer information.

In his 1983 keynote speech inaugurating Washington, D.C.'s cellular system, John Naisbitt, author of the bestseller *Megatrends*, suggested how cellular technology will change the way people think about communications. "People will be connected as individuals regardless of where they happen to be physically located at any one time," he said. "We'll be able to [reach out and touch someone] anywhere, anytime, with our portable telephone." Offering an encouraging view of the future of individual autonomy, Naisbitt speculated that the revolution in personal communications may one day allow individuals to bypass national telecommunications systems. "The implications for totalitarian countries," he proclaimed, "are just staggering."

But this growing capacity for individual contact also portends cellular's potential use as a surveillance tool—the dark side of the new communications age. When nearly all individuals become part of a personal-communications network more extensive than today's phone system, the authorities may be able to "reach out and touch" them—whether or not an individual wants (or knows about) the contact. In other words, this brave new world of instant communication may erode the notion of privacy—and our ability to protect it. This is particularly a threat with cellular technology, because it may supply the means to pinpoint the locations of all system subscribers (see sidebar, page 26). The problem is magnified where such advances eclipse existing legal protections.

Technological developments historically have affected the scope of individual rights. When it comes to the right of privacy, science has provided new ways to intrude on individual lives, while the law protects primarily against past abuses. Thus, difficulties arise when science creates a world that is significantly different from the law's view of reality.

Introduction of the telephone, for example, led to a disparity between legal change and technological development. When first confronted with the issue of whether or not wiretapping telephone conversations constituted an unreasonable search, the Supreme Court ruled that official eavesdropping was permissible. This decision, in the case of *Olmstead v. United States*, came in 1928 as the telephone was becoming a household necessity, but it applied legal concepts developed in the 18th century.

The Constitution's framers intended the Fourth Amendment as a restraint against unreasonable search and seizure to protect individuals from government interference with their property, especially personal papers. When the amendment was adopted in 1791, it was sufficient to protect the privacy of communications, since correspondence was conducted in tangible form. But when the telephone made personal communication intangible, the law did not keep up. In *Olmstead*, the court merely applied its time-honored understanding of property rights: "The [Fourth] Amendment does not forbid what was done here," the court ruled. "There was no searching. There was no seizure. The evidence was secured by the sense of hearing and that only. There was no entry of the houses or offices of the defendants."

Cellular telephones could become one of the new law-enforcement tools of the '80s and beyond.

Justice Louis Brandeis, writing in dissent, was more sensitive to the effect of technological development on civil liberties. He pointed out that discovery and invention have given government means "far more effective than stretching upon the rack" to extract information from defendants. "The progress of science in furnishing the Government with means of espionage is not likely to stop with wire-tappings," he added. "Ways may some day be developed by which the Government, without removing papers from secret drawers, can reproduce them in court."

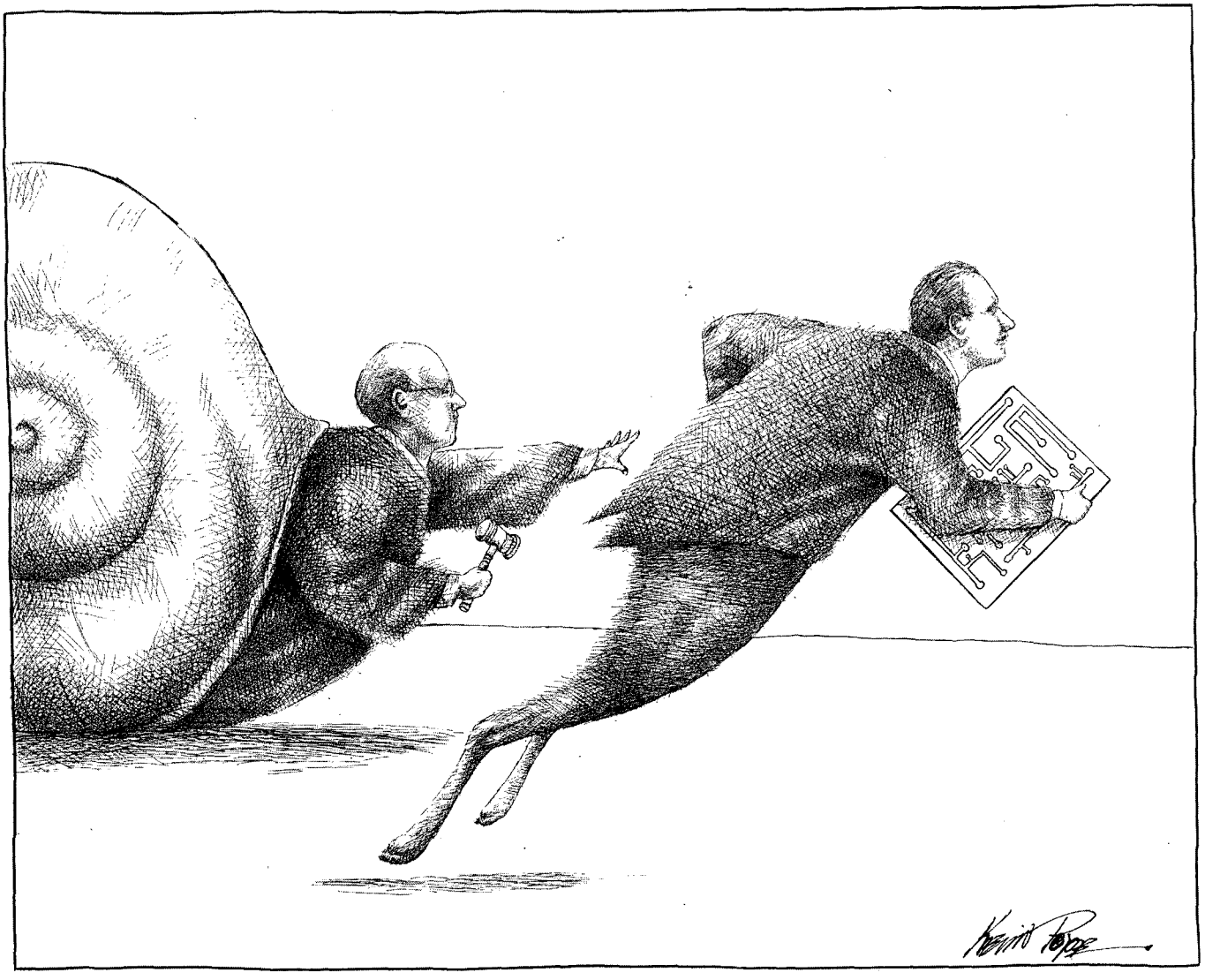
Justice Brandeis's concern with the widespread use of government espionage was well-founded. In the years following *Olmstead*, electronic surveillance was widely used, posing an ever-increasing threat to civil liberties. Justice William Brennan pointed out in 1963 that "our decisions...[have] been outflanked by the technological advances of the very recent past." And Justice William O. Douglas warned three years later that "we are rapidly entering the age of no privacy, where everyone is open to surveillance at all times."

This concern reached new heights in 1975 as Congress considered advances in surveillance technology and data banks. During hearings on the issue, former US Sen. John Tunney (D-Calif.) worried that "technological developments are arriving so rapidly...that we are in danger of losing the capacity of shaping our own destiny....This danger is particularly ominous when the new technology of surveillance conveys effective control over our privacy, our freedom and our dignity."

Forty years after *Olmstead*, the Supreme Court finally caught up with the development of the telephone. It concluded that technology had indeed progressed such that a new Fourth Amendment theory was needed. In the 1967 case of *Katz v. United States*, the court overturned *Olmstead*, holding that wiretapping constitutes an unreasonable search. In *Katz*, the court even extended Fourth Amendment protection beyond the individual's home to include conversations from a public telephone booth. According to this new formulation, the Fourth Amendment protects "people, not places." Where the individual has exhibited a "reasonable expectation of privacy," the law must protect that privacy.

Although the Supreme Court belatedly came to terms with the existence of telephones, technology marches on, and new inventions again and again pose potential civil-liberties problems.

For example, interactive "two-way" cable television—by which subscribers can send and receive signals over their TV sets (to tap into a data bank, for instance, or to pay bills)—raises a number of privacy issues. Former Federal Com-



munications Commission (FCC) chairman Charles Ferris has pointed out that interactive-cable operators will have composite files on their subscribers that could contain such information as the way in which consumers pay their bills and what they purchase; the consumers' programming preferences; and, if the system is hooked into the home security system, when the consumer returned home the previous night. "In other words," Ferris concluded, "it will know more about them than anyone should." The comprehensive nature of such files raises the possibility of significant privacy invasions by both government and private interests. This brings to life Justice Brandeis's warning that searches may one day be conducted without anyone ever entering the home.

Already, police have used video technology for surveillance purposes. Federal investigators have placed hidden video cameras in the residence of suspected terrorists to gather information, and this exceedingly intrusive surveillance practice has been approved judicially. Also, closed-circuit-television (CCTV) surveillance systems have been employed to continuously monitor city streets and, as in the nation's capital, subway platforms. The now-defunct federal Law Enforcement Assistance Administration funded CCTV systems in a dozen cities in the 1960s and '70s as part of its aid to states to beef up the criminal-justice system. Such monitoring systems, of course, have long been commonplace in the private sector, in institutions such as banks. But when the government engages in around-the-clock video surveillance of city streets, serious constitutional issues are raised.

Another means of electronic surveillance currently in vogue among police departments is the use of electronic tracking devices. One method involves attaching a radio transmitter, or "bumper beeper," to a suspect's possessions—on a car, for instance, or a briefcase—and using a receiver to follow the "trail." Police don't need a court order to use the beepers.

Several firms, including Geostar Corporation, have filed applications to operate a system of satellite tracking devices, and the Federal Communica-

tions Commission has taken preliminary steps to approve the applications. With its system, Geostar claims, "everyone in the U.S. could be located instantly" through the use of a small, hand-held transmitter and three satellites. Using a computer link, the satellite system could fix the location of the transmitter's signal by latitude, longitude, and altitude. In tests, the proposed equipment was accurate within seven meters.

Though initially proposed for industrial and emergency uses, the satellite locator system also would vastly expand the ability of the police to tail suspects. Indeed, FCC officials have applauded the system's potential capability to alert police to "the event and location of crimes." Although this particular portrayal paints the scenario of an embattled crime victim signaling for help, the same technology could be used for intrusive surveillance purposes.

As these brief examples suggest, technological change has serious ramifications for the future of civil liberties—especially privacy. And the trend is hastened by the combination of computer and communications technology. "Shifts in technology somehow move activities in and out of the law's protection," says Fred Weingarten, program manager for communication and information technologies at the Congressional Office of Technology Assessment. "More and more of what we do is not covered by our traditional protections." And at an American Bar Association symposium on technology and freedom last year, one panelist similarly cautioned that "unless we strengthen the laws protecting our privacy, the right to that privacy will vanish."

Just as wiretapping made obsolete a Fourth Amendment theory based solely on property rights, new computer and communications technologies promise to vitiate Fourth Amendment theory predicated upon a "reasonable expectation of privacy." A 1979 survey by Sentry Insurance Company, for example, found that 54 percent of the respondents considered the existing use of computers a threat to personal privacy. With new applications of the technology, that percentage has increased. According to a 1983 Harris poll, two-thirds of Americans feel that information is being collected on them without their knowledge. Most respondents agreed that it was "possible" or "likely" that the government would use this data to intimidate individuals and reduce their privacy.

Given these attitudes, one may well wonder whether the nation will soon reach a stage at which any expectation of privacy is considered unreasonable. And if nobody expects privacy, will the law continue to protect it? In this context, cellular telephones may further reduce individuals' expectations of privacy. By combining communications and computer technologies, cellular provides a direct electronic link between individuals—and more important, between the cellular company's switching office and individuals.

This brave new world of instant communication may erode the notion of privacy — and our ability to protect our right to it.

Cellular telephone systems, as they become more widespread, may further erode individuals' expectations of privacy, because the cellular operator—or, more significantly, the government with the cooperation of the operator—has the potential capability to keep track of each subscriber in the system. A computer tracking device in the operator's "mobile telephone switching office" (MTSO) must locate each mobile unit geographically so that the MTSO can regulate the phone's frequency as the user moves from one area to another within the system.

"Conceptually, it is possible to track someone's movements around a city, and from city to city" on a cellular system, explains John Simeone, vice president for research and development at Cellular Software, Inc. Simeone, who designs computer software for cellular phone systems, helped install the Los Angeles system for PacTel Mobile Access, the cellular operator there.

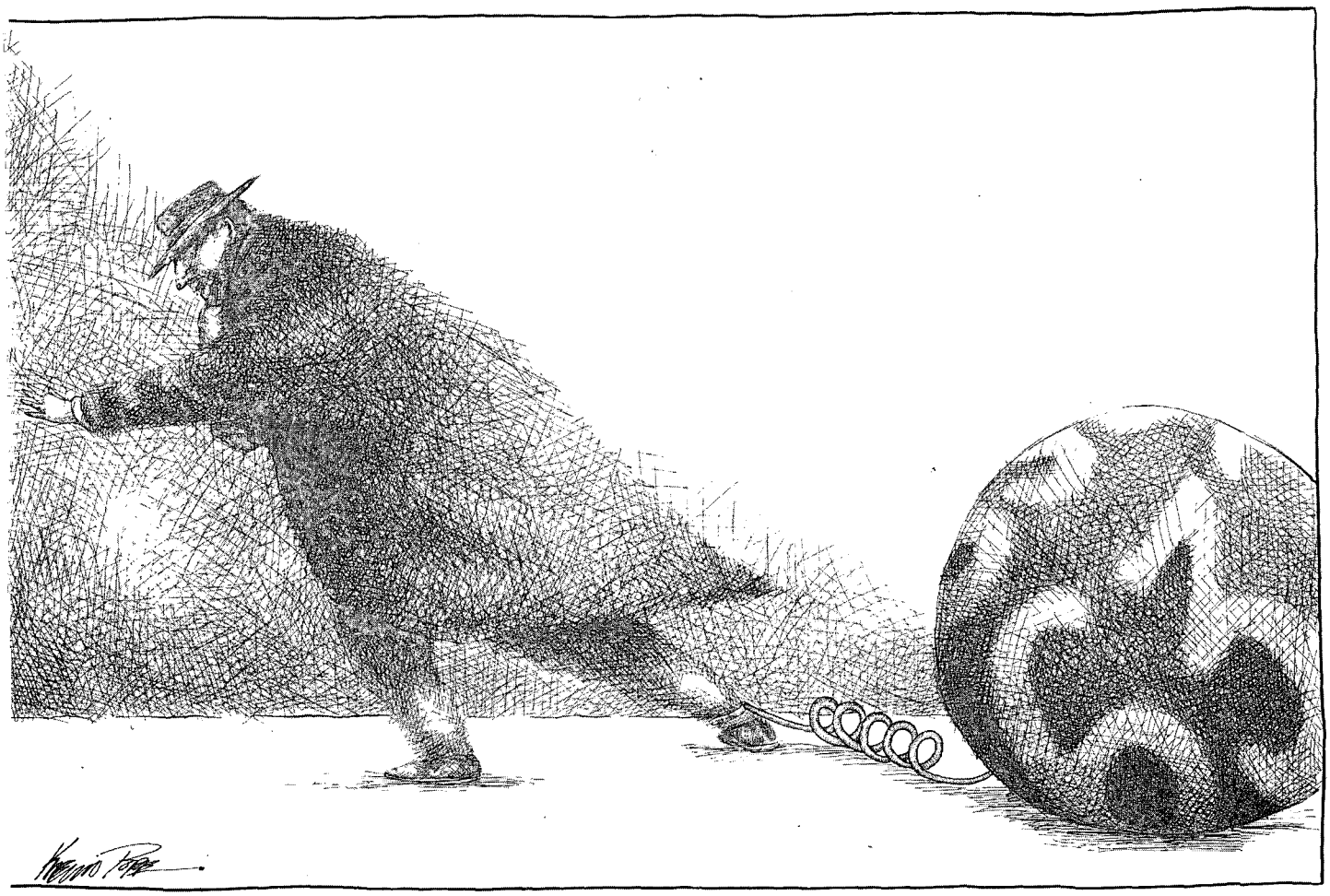
Analyst Fred Weingarten, of the Congressional Office of Technology Assessment, agrees that such surveillance is possible. "The system has to 'know' where the person is at all times," he says. "In general, if you know the succession of frequencies [a mobile unit uses during a call] you can chart its path." An FCC official who has worked with cellular technology since its inception also confirms that such electronic tracking is possible.

Moreover, at least one type of cellular switching mechanism records every call by location and records whether the user has moved during the call. According to Mark Nielsen, marketing manager of Cellular Business Systems, Inc., who has advised the American Civil Liberties Union on privacy issues, "the mobile unit's originating location is stored on computer tape." Whoever can gain access to the computer, he says, certainly can roughly determine the subscriber's location when the call was dialed.

"If cellular technology were misapplied, governments could keep an eye on citizens," the industry trade publication *Cellular Business* has bluntly warned. "Police could see who attends an anti-draft rally, or who in which department or agency is meeting with a reporter. Special lists could be drawn up of real or imagined enemies who deserve closer attention. Far-fetched? Imagine what a Nixon or a McCarthy could have done with this, let alone the totalitarian regimes of the East Bloc and Third World."

Cellular equipment is already being tested as a means of enforcing "incarceration in the home" for convicted drunken drivers, according to *Cellular Business*. This technique uses a device that, when strapped to an individual's arm or leg, would notify police if the individual leaves a specific area. And technologists are now talking about a "telephone number for life," whereby we would all be christened at birth with a code of digits all our own to carry with us to the grave.

These developments foreshadow the communications age heralded by *Megatrends* author John Naisbitt, who welcomes the notion that people will always be connected to one another—but they also forewarn the death of privacy. Admittedly, that fear could not be fully realized until the cellular industry is more developed. Current systems are not necessarily programmed to deliver subscriber-location information to the cellular operator in any sort of timely fashion, says cellular-software designer Simeone. Furthermore, the initial



systems are configured such that the location function is rather imprecise. But with more and more users, operators will have to reconfigure the systems, which will then be able to more accurately determine subscribers' locations.

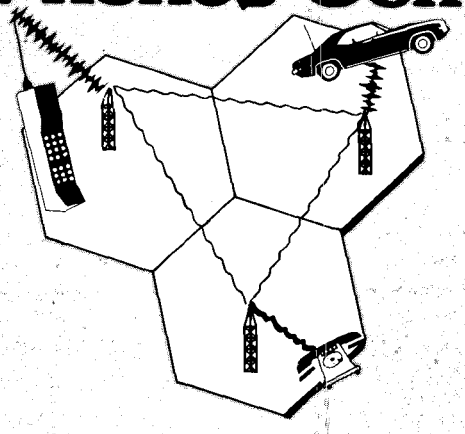
Simeone predicts that tracking capability will become universal as systems add on subscribers and as operators upgrade their technology. Moreover, he says, nothing inherent in current cellular hardware precludes an operator from adding a "locate-car" function to the software to deliver such information instantly. This function would instruct the central switching office to send an electronic inquiry to a given subscriber's mobile phone. If the phone is switched on and is within the system, it would electronically send a response back to the switching office, even if the subscriber is not using the phone at the time.

Marketing pressures, in fact, will likely spur cellular carriers to provide more-exact subscriber location information. "Cellular operators are always looking for incremental features they can offer that will enhance their profitability," Simeone says. One such addition is automatic-vehicle-location (AVL) technology, which determines a mobile unit's location by measuring its relative signal strength at three different receiver points.

Such capability, says Simeone, would be attractive to cellular operators because it would enable them to offer subscribers a range of enhanced services, including a way to combat car theft. If, for example, a subscriber is receiving "theft protection" service, the cellular phone may remain activated even while the car's ignition is off, so that its signal may be tracked at any time while it's in the cellular system. No technical modification is required in currently manufactured cellular telephones—the unit need only be hooked up in a certain way to the car's battery power. "Anybody who has a car that costs $15,000 would pay $5 a month for such a service," Simeone suggests.

Cellular marketer Mark Nielsen points to other potential uses of AVL capability. Firms in Hong Kong, he notes, are considering its application as an antiterrorist

Cellular Phones Come of Age



A cellular system is divided into geographic regions called cells. Each cell has a receiving-transmitting facility that receives and relays users' signals. These facilities are hooked up to the system's mobile telephone switching office (MTSO). When a cellular user moves out of one cell into another, the MTSO instantaneously "hands off" the signal to a frequency in the new cell. Via radio and wireline links, a cellular system can interconnect mobile phones, car phones, and standard stationary phones.

Cellular-telephone systems are now operating in 44 American cities, and the Federal Communications Commission (FCC) is currently considering applications for such service in the largest 120 markets. This technology, developed over the past 20 years, is just now coming into use—and into the public's awareness. It promises to revolutionize the telephone industry and make mobile phones universally available.

For many, a car telephone is the ultimate status symbol. It evokes images of a top executive making multimillion-dollar deals while his chauffeur drives him to an important meeting. Seeking this communications capability, millions of people purchased CB radios in the 1970s. And telephone-recording units are currently popular items, allowing their owners to monitor important calls while away from home. But despite this widespread demand for mobile communications, old-fashioned pre-cellular car phones had never reached the mass market.

Mobile-telephone service had been incapable of meeting this market demand for a simple reason: a government-enforced shortage of available radio channels. Car phones operate by sending and receiving signals through a radio link to wireline telephone systems, and the FCC—which regulates use of the airwaves in the United States—severely limited the number of available frequencies for this use. It allocated only 23 channels for traditional mobile-phone service, and in New York, because of technological limitations, only a dozen could be used. Consequently, only 12 mobile-phone calls could occur simultaneously in the nation's largest city.

The shortage of frequencies left mobile-telephone companies with two alternatives, neither desirable. They could either limit the number of subscribers, thus creating long waiting lists for service, or they could issue more mobile telephones and exacerbate the congestion problem.

Mobile-telephone companies opted for both sides of this dilemma, and, in many cases, created the worst of both worlds. In 1982, over 25,000 people were waiting for car-telephone service, and the wait was a long one (in Chicago, 12 to 15 years; in White Plains, New York, over 9 years; in New York City, over 5 years; in Fort Lauderdale, Florida, 4 years). Even with such strict limitations on the number of mobile phones, however, it was difficult to get an open frequency. In some areas only one in three calls was successful during peak periods, because the available channels were in use.

Cellular telephones promise to solve both problems by permitting much more efficient use of available radio frequencies (and because the FCC has allocated many more channels to this new service). The technology is far more complex than that employed in traditional mobile phone service. In a cellular system, markets are divided into geographic regions called cells (hence the name), each assigned a bundle of low-power radio frequencies. (Cells can be divided into smaller cells as a system acquires more and more users.) As a car equipped with a cellular telephone travels through a cell, it uses one of the frequencies. Upon entering an adjoining cell, the mobile phone's signal is "handed off" to a new frequency. All of this is accomplished without interrupting the telephone conversation in progress.

The heart of the cellular system is a computer in the "mobile telephone switching office" (MTSO) that locates each mobile unit geographically and switches the unit's frequency as the car moves from cell to cell. This system is much more efficient than the old one, because it allows "frequency reuse"—that is, the same radio frequency can be used simultaneously in distant parts of the same market without interference. Therefore, a cellular system can handle many more times the telephone traffic than a traditional system can, even given the same number of available channels.

Because this approach is such an efficient use of the radio spectrum, some suggest that cellular systems may become the primary telecommunications technology. "The wire loop may become a thing of the past," says one state regulator. "And the wireless loop and the Dick Tracy wrist watch radio may well overtake us." **—R. L. C.**

device. If kidnapped, a subscriber would press a "panic button," thus activating the telephone so that the car's movements could be traced.

An AVL system of this sort is capable of impressive accuracy. According to Nielsen, it can locate a vehicle to within 100 feet. Motorola, a pioneer in cellular technology, has developed an AVL system that, it claims, can locate a vehicle to within one block 95 percent of the time in 95 percent of the coverage area for most cities.

On the surface, such technical capability does not seem all that insidious. After all, businesses and individuals may very well covet such services. The problem arises when overly curious authorities try to bring cellular operators into a "partnership" to support and aid government surveillance activities. By such arrangements, the state can gain access to information far beyond what an individual may have intended by subscribing to cellular services.

To initiate such an arrangement, says Simeone, "the average police authority will go in through the back door—they'll just walk into the MTSO" (mobile telephone switching office). In conversations with telephone-company personnel, he says, he was shocked to learn the extent to which traditional telephone companies have cooperated with the police for such purposes. "A phone employee was very up-front about the fact that, even though my phone number is unpublished, they would release it upon request from a government body without my consent," Simeone reports. "Upon government application for phone records," he adds, the phone company "will provide them even without a court order."

This type of "cooperative" venture has a long history. The telephone was not invented or marketed as a surveillance device, but police were quick to catch on to its capabilities for that purpose. By the 1920s, wiretapping became one of the new tools used by law-enforcement officials.

It is not known how many citizens were bugged before the Supreme Court ruled in 1967 that the privacy of phone conversations is constitutionally protected. But more recent statistics indicate that the technique continues to be popular. In 1971—the peak year of the Vietnam war protests—more than 800 wiretaps were authorized. In 1981, federal and state authorities ordered 589 wiretaps. And between January 1981 and September 1982, the Reagan administration upped its surveillance orders by 280 percent.

Authorities also have also secured the "cooperation" of telephone companies in the installation—without court order—of "pen registers," devices that record the numbers dialed by a person being investigated. Thus any information that subscribers reveal to the telephone company becomes fair game for official snooping. Justice Thurgood Marshall has warned, "Unless a person is prepared to forgo use of what for many has become a personal or professional necessity, he cannot but accept the risk of surveillance."

The current Fourth Amendment standard is insufficient to protect cellular subscribers in a high-tech world.

With cellular telephones, investigative agencies gain an added dimension in their information-gathering capabilities. The development of cellular may enable police to monitor from a centralized location the movements of any subscriber they choose. The comparison to George Orwell's *Nineteen Eighty-Four* is inescapable:

> There was, of course, no way of knowing whether you were being watched at any given moment... it was even conceivable that [the Thought Police] watched everybody all the time.... They could plug in your wire whenever they wanted to. You had to live... in the assumption that... every movement was scrutinized.

Of course, we do not yet live in an Orwellian society, and individuals in the United States are supposed to be protected by a Bill of Rights. These constitutional protections, however, prohibit intrusive practices only when they fit within the law's existing conceptual framework. While the Fourth Amendment protects against unreasonable searches *of* persons and their effects, use of cellular tracking capabilities would be a search *for* persons and their effects. Thus, surveillance using cellular technology simply does not fit into the traditional Fourth Amendment mold.

Decisions in analogous areas reinforce the suspicion that the Supreme Court would not extend protection to cellular subscribers. The court has decided, for example, that the police do not need warrants to install pen registers to record telephone numbers, because subscribers "share" the numbers they dial with the telephone company. Presumably, the court would also find that cellular subscribers "share" their locations with the telephone company.

The clearest indication that the Supreme Court would not protect cellular subscribers is its 1983 decision that monitoring a suspect's movement with a "bumper beeper" is neither a search nor a seizure under the Fourth Amendment. Writing for the majority, Justice William Rehnquist stated:

> A person traveling in an automobile on public thoroughfares has no reasonable expectation of privacy in his movements from one place to another. When [the defendant] traveled over the public streets, he voluntarily conveyed to anyone who wanted to look, the fact that he was traveling over particular roads in a particular direction, the fact of whatever stops he made, and the fact of his final destination when he exited from public roads on to private property.

"Nothing in the Fourth Amendment," the court added, "prohibited the police from augmenting the sensory faculties bestowed upon them at birth with such enhancement as science and technology afford them in this case."

A March 1984 decision of the Kansas Supreme Court and a February 1985 Rhode Island Supreme Court decision further reinforce the idea that cellular systems are beyond constitutional protection. Recording conversations from cordless telephones, the courts ruled, did not violate federal anti-wiretapping laws, because such phones provide their users no reasonable expectation of privacy. The courts reasoned that since conversations on such telephones are transmitted in part via radio waves and not entirely by wire, anyone may legally listen in—including the police.

Although monitoring cellular-telephone conversations on a radio scanner is more difficult than listening in on a traditional car telephone, expert investigators indicate it can be done. Most industry observers simply conclude that if a person thinks his message is important, he shouldn't say it over the air. Once this privacy expectation is extinguished, according to the state-court decisions, so are all legal protections.

John Simeone believes that monitoring cellular conversations should not pose a significant threat to privacy, because he predicts that encryption (scrambling) technology will be available within the next five years to help the average subscriber protect the privacy of his conversations. Such devices are not yet on the market, however, and when they become available they could be prohibitively expensive. Moreover, they would not enable subscribers to keep their *locations* private.

Clearly, the current Fourth Amendment standard is insufficient to protect cellular subscribers and may be obsolete in a high-tech world. In a society where living rooms are wired to the outside world via interactive cable, where the streets are constantly monitored by closed-circuit cameras, and where any automobile equipped with a telephone can be located instantly, no one can "reasonably expect" privacy. If the right of privacy is to be preserved, the judiciary must develop a new conceptual framework. As one federal appeals court recently noted, the crucial issue is whether investigative activity, if unregulated by constitutional constraints, is the kind of intrusion a free society is willing to tolerate.

Rather than wait for light to dawn at the Supreme Court, however, it makes sense to explore other solutions to privacy problems that may accompany the development of new technologies. The Supreme Court took 40 years to eradicate the mistake it made in *Olmstead*, which denied Fourth Amendment protection for phone conversations. It may never face the difficult issues raised by its 1967 *Katz* decision, which articulated the "reasonable expectation of privacy" principle.

Fortunately, Congress has shown a willingness to extend the privacy protections to supplement judicial standards. Congress enacted the Privacy Protection Act of 1980 to prevent newsroom searches by the police after the Supreme Court had sanctioned such tactics in a 1978 decision. Concluding that the Court had allowed the government too much latitude, Congress banned most newsroom searches.

The earlier Omnibus Crime Control and Safe Streets Act (1968) was passed in part to implement the Fourth Amendment wiretapping prohibition. And most recently, Congress inserted language in a 1984 federal cable-television law that requires the government to obtain a court order (and affords the subscriber the opportunity to contest such an order) before authorities are permitted access to personally identifiable information. A similar legislative approach could be used to help prevent abuse of cellular-radio technology. California state senator Herschel Rosenthal, for example, recently proposed a bill in the California legislature to outlaw scanning cellular telephone conversations.

An open, competitive market for cellular-phone service promises the best protection of privacy in the new communications age.

Legislation, however, may suffer from some of the same infirmities as constitutional protections. Statutes may be poorly drafted, or they may fail to anticipate new technological intrusions. Rosenthal's proposed legislation for California, for example, says nothing about monitoring the location of cellular subscribers. There have been additional newsroom searches since Congress enacted a law to prevent them—in 1981, for example, police searched a Boise, Idaho, television newsroom—and the federal wiretap laws have not prevented warrantless surveillance of *cordless*-telephone conversations, as the Rhode Island and Kansas supreme courts have made clear.

Although remedial legislation might be helpful, the most effective near-term solutions to cellular's privacy-invasion potential appear to be within the grasp of private institutions. Cellular operating companies could resolve not to allow use of their systems for surveillance or investigation without a court order.

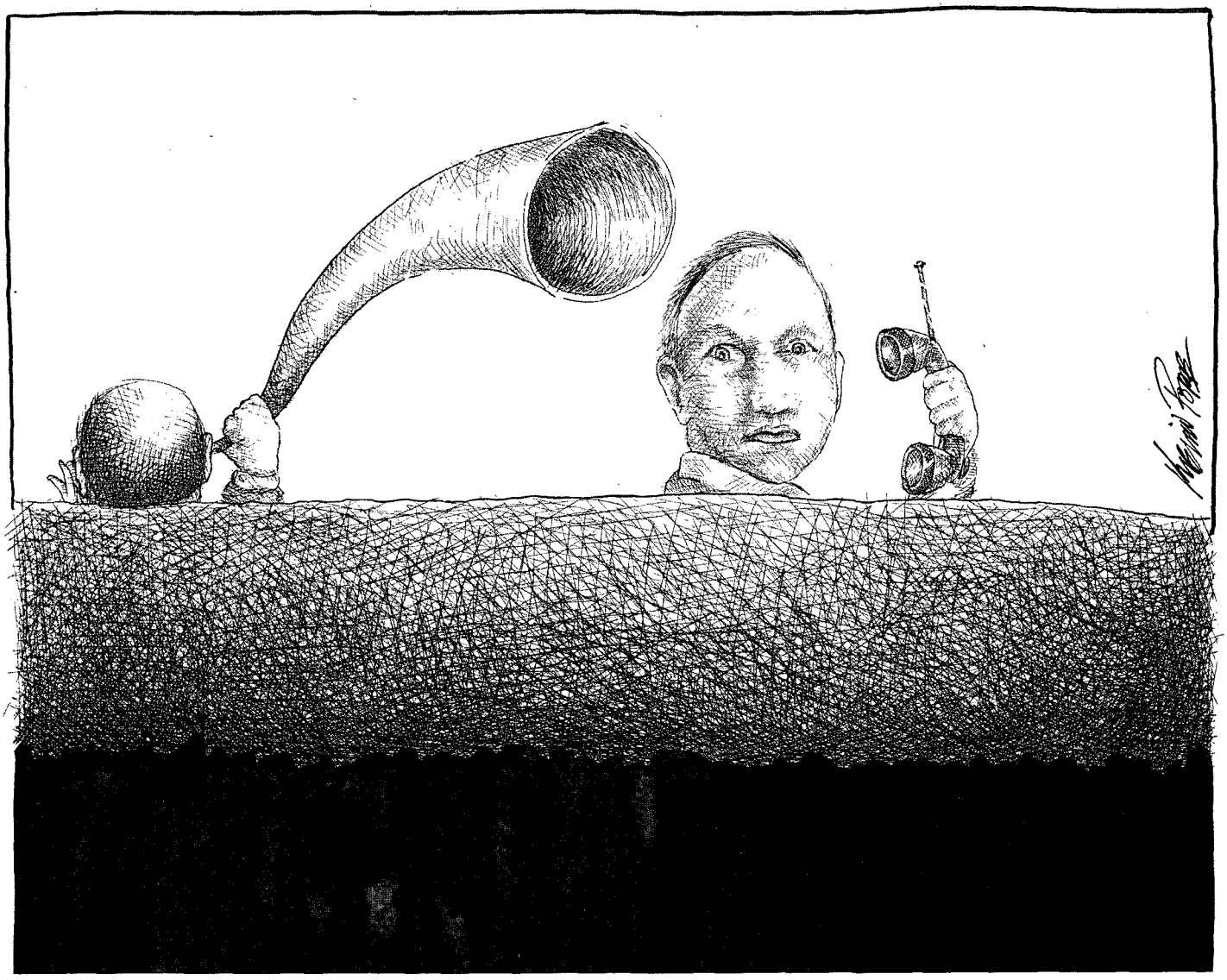
"As long as one denies access to the MTSO by government authorities without a court order," notes cellular-software designer John Simeone, "it would be very difficult for them to monitor citizens' movements." Such a stance, he adds, would be in the best interests of the industry, because the industry's reputation and growth could be seriously damaged if it were publicized that any operator was providing unauthorized access to subscriber information.

Privacy protection may even become a marketing tool, whereby competing cellular systems would seek a competitive edge by offering greater security. Mark Nielsen, of Cellular Business Systems, Inc., agrees that the cellular industry could take a leadership role in providing privacy protection.

Similar policies have already been adopted by certain cable systems. In a notable demonstration of corporate responsibility, the Warner-Amex Company refused to disclose the programming choices of its QUBE two-way-cable subscribers in Columbus, Ohio, when a lawyer tried to subpoena this information during an obscenity trial of a local theater owner a few years ago. The defense attorney was trying to show that *Taxi Girls*, the film for which his client was being prosecuted, was part of contemporary "community standards," because many area residents had viewed it over cable TV. The president of Warner-Amex vowed never to release individual viewing data, and the court settled for a tally of the total number of viewers of the movie in question rather than individual subscriber information.

Other information industries, too, have taken measures to protect their customers' privacy. The Videotex Industry Association, which represents two-way electronic-publishing services, has promulgated guidelines to prohibit information disclosure on individuals unless the individual consents or there is a court order. Similarly, the National Association of Insurance Commissioners has approved a model privacy law designed to set standards for the collection, use, and dissemination of information collected by insurers.

Cellular carriers should—and, in a



competitive market, likely will—follow these leads and adopt measures to protect the privacy of their subscribers, perhaps as part of the contract with subscribers. For example, subscribers could have the option of "unlisting" their units in the automatic-vehicle-location function, just as magazine subscribers can have their names deleted from circulation lists that are rented to marketing organizations. Or cellular operators could provide subscribers who opt for the locator service with a coding mechanism to control the times when their mobile phone is tracked. Perhaps the most important measure would be for cellular-telephone companies to contract with their subscribers not to release information without the subscriber's consent or a court order.

Thus, contractual agreements, rather than constitutional rights, may be the most effective way to combat the assault on individual privacy made possible by such technological developments as cellular telephones. Where subscribers' privacy is ensured by contract with an operator whose interest it is to satisfy customers, protections may evolve as rapidly as does the technology that underlies the agreement. The parties can simply modify the agreement to fit new developments. Subscribers protected by such arrangements need not wait for courts and legislatures to adjust to the new realities.

Thus an open, competitive market for cellular-phone service promises to best assure individual privacy in the new communications age. But the question of what constraints government authorities must act under remains an important issue. "There must be no government intrusion into individuals' private lives without court review," says cellular designer Simeone. "The access to data by government authorities has to be addressed. If people don't give a damn, they are going to get an Orwellian nightmare." ◻

Robert Corn is an attorney with the Washington, D.C.–based law firm Steptoe & Johnson.

Delivering the Goods to Hitler

by Alexander Jason

The 40th anniversary this year of the end of World War II has been marked by a spate of retrospective analyses, none more self-congratulatory than those drummed up by the Soviet government. Lest its own citizens and the Western world forget the Soviet role in the defeat of Nazi Germany, the Kremlin has been emphasizing and reemphasizing how its people suffered while heroically resisting Adolf Hitler and his fascism. What the Kremlin is presenting is hardly the whole picture, however.

The Soviets did indeed suffer during World War II, but they were not so much a victim of fascism as a victim of their government's own bad intentions. What the Soviets leave out of their account is the fact that Hitler's rise to power—and Nazi Germany's ability to rearm, seize considerable European territory, provoke World War II, and commit its crimes against humanity—was greatly aided by the very existence of Soviet Russia and later by substantial secret support from the Soviets.

Without Stalin's Soviet Union lurking in the background it is unlikely that the Western powers would have responded as they did to Hitler's rise to power and his increasingly open rearming of Germany in violation of the Versailles Treaty. As it was, England's Prime Minister Neville Chamberlain, along with other European conservatives, declined to effectively oppose Hitler. Instead, Chamberlain pursued a policy of appeasement and concessions, which actually encouraged Hitler's grand strategy.

Contemporary historians and dramatists have tended to explain Chamberlain's actions as the product of a weak, indecisive leader with a Jimmy Carter–style foreign policy. Although this popular characterization may be generally accurate, there is another, very important element that guided Chamberlain's policy toward Nazi Germany. Chamberlain and other conservatives in the West were simply more concerned about Stalin's rule and the possible rise of communism in Western Europe. They knew enough about Stalin and the true nature of the Soviet Union to fear its expansionist potential.

Hitler, at that time, was a relatively unknown evil. Prior to his brutal conquest of Europe, establishment of the extermination camps, and use of slave labor, Hitler was regarded by many in the West as a strong, nationalist leader who had led the German people out of economic depression and political instability. Europe's political leaders believed that a rearmed, economically and militarily strong Germany would stave off the rise of Bolshevism in Germany and other Western nations. Germany was also viewed as a buffer between the Soviet Union and the Western nations.

The historian Hugh Thomas described this outlook in his *History of the World*: "The British and French governments

Forty years after World War II, the Kremlin is boasting about the Soviets' valiant struggle against Hitler. But when it really counted, the Soviets fueled the Nazi war machine far more than most people know.

Nazi troops invading the USSR: The Soviet people suffered, but the Soviet Union was hardly an innocent victim of the Nazis.

Adolf Hitler: His "Thousand-Year Reich" desperately needed raw materials to fuel its conquests.

not unnaturally distrusted the Russian government under Stalin rather more than they distrusted the Germans." More to the point was Chamberlain's reply when asked by the French in 1938 to support a coup against Hitler: "Who will guarantee that Germany will not become Bolshevistic afterwards?"

Without the presence of the feared Soviet Union, it is likely that England or France would not have hesitated to stand up to Hitler, attempting to force Germany early in the 1930s to abandon its plans for rearmament. They did not stand up to Hitler, and by the mid-30s he was ready to begin his conquest of Europe and founding of the "Thousand Year Reich." In this effort, he was explicitly aided and abetted by the Soviets.

Hitler faced big obstacles. First, he feared simultaneous military opposition from France and England on the west and the Soviet Union on the east. He realized Germany could not fight on two fronts, and as long as there was a chance that the Soviet Union would align with England against Germany (there were intense diplomatic efforts toward a British-French-Soviet treaty), he was effectively checkmated. The second obstacle was a lack of raw materials essential for a war machine. Germany had, other than coal, very limited natural resources. (During

Joseph Stalin: He nourished and protected the Nazi monster—until it turned on him.

World War I, Germany had been able to obtain raw materials from its African colonies.) Without a reliable source of imported raw materials such as oil, cotton, rubber, grain, manganese, and phosphates, Hitler knew he could not fight even a limited war.

Had the Soviet Union, therefore, joined the English and the French in their desperate attempts to form an alliance, Hitler would very likely have been forced to abandon his plans for military conquest and attempted instead to build the Third Reich through diplomatic intimidation and maneuvering. At very least, it would have set back his military action timetable by five or more years, during which time the British, French, Polish, and other anti-Nazi forces could have significantly increased their military strength—perhaps making Hitler's invasion of Poland in 1939 either unthinkable or a disastrous defeat that might have deterred him from future military adventures.

As we know, however, Hitler was able to begin his takeover of Europe, and the significant element that allowed him to do so was the acquiescence and enthusiastic support of the Soviet Union. The worrisome possibilities of military encirclement and shortage of raw materials were alleviated with the Nazi-Soviet Treaty of August 1939. The details of this gangster pact can be found in a bound and translated series published by the US State Department in 1952. It contains the complete files of the German Foreign Office, which were captured by the US Army. The series also contains the secret cables and political reports of the German Embassy in Moscow, which were returned to Germany in 1941, as well as the "special file" of Hitler's foreign minister, Joachim Von Ribbentrop, which includes several Hitler memoranda.

The German Foreign Office documents reveal how eager the Soviets were to form an alliance with Hitler. A secret communiqué from the Soviet government to the Nazis in August 1939 on the subject of a change in relations and a possible alliance stated, "the Soviet Government can look upon such a change only with pleasure and...is prepared to alter its policy in the direction of an appreciable improvement in relations with Germany." Hans von Herwarth, a German diplomat stationed in Moscow and involved in the pre-treaty negotiations, would later describe Stalin's motives: "I can only report what I then believed to be the case, namely, that Stalin was not merely seeking to gain time....there was near unanimity among the Western embassies in Moscow that Stalin had a higher regard for the Germans than for the other Western powers, and that he certainly trusted them more."

Stalin cabled his own sentiments to Von Ribbentrop for inclusion in a public speech announcing to the world the new relationship between Germany and the Soviet Union: "A strong Germany is an absolute prerequisite for peace in Europe, whence it follows that the Soviet Union is interested in a strong Germany. Therefore the Soviet Union cannot give its approval to the Western powers creating conditions which would weaken Germany and place her in a difficult position. Therein lies the community of interest between Germany and the Soviet Union."

The Nazi-Soviet nonaggression pact is well known. But the same pact included a highly significant secret trade agreement.

It is well known that in 1939 Stalin and Hitler entered into a nonaggression pact and adopted an accompanying "strictly secret" protocol that promised half of Poland to the Soviets, as well as German noninterference with a future Soviet takeover of Latvia, Lithuania, and Estonia. But the same Nazi-Soviet Treaty included a less well-known but highly significant trade agreement.

The secret German-Soviet Trade Agreement of August 19, 1939, would eventually provide Hitler with enormous amounts of raw materials in return for mostly machine tools, steel pipe, aircraft engines, and miscellaneous war matériel. Perusal of the documents from the German Foreign Office reveals that the trade agreement, which was honored by Hitler's Soviet partners right up to the German invasion of the Soviet Union two years later, provided the Nazis with at least:

2 million tons of grain;

1.5 million tons of petroleum products, including aviation gasoline, diesel fuel, and motor oil;

100,000 tons of cotton;

500,000 tons of phosphates;

100,000 tons of chromium;

500,000 tons of iron ore; and

5,000 pounds of platinum; plus

manganese ore, lumber, and other raw materials.

But the Soviets were not only supplying the Nazis with their own natural resources. They also willingly agreed to act as a front for Germany both in obtaining additional raw materials from other countries that would not knowingly sell their resources to the Nazis and in defeating the British blockade.

The German ambassador to Moscow, Count Friedrich von Schulenburg, described his talks with the Soviets on this matter: "The discussion brought out the readiness on the part of the Soviet government to let its own organizations effect the purchase of raw materials for us and ship them to Odessa." In a later discussion on the transshipment of raw materials to Germany, the Soviet Commissar for Foreign Trade, Anastas Mikoyan, indicated the Soviet Union's ever-present concern with its international image. As the German ambassador reported: "The Soviets attach decisive importance to strictest secrecy. Mikoyan terms the procedure a German-Soviet conspiracy, knowledge of which would have to be confined to a few persons."

Commenting on a subsequent trade agreement in a Foreign Office memorandum marked "State Secret," German embassy official Karl Schnurre reported: "The Soviet Union declared her willingness to act as buyer of metals and raw materials in third countries.... Stalin himself has repeatedly promised *generous* help in this respect" (emphasis in original). Schnurre concluded by enthusiastically commenting, "The Agreement means a wide open door to the East for us."

The Soviets' "fronting" for the Nazis was very successful: A year after the trade agreement was signed, Schnurre wrote in a report to the German foreign minister, "Our sole economic connection

with Iran, Afghanistan, Manchukuo, China, Japan and, beyond that, with South America, is the route across Russia, which is being used to an increasing extent for German raw material imports."

Thus when Hitler's *Wehrmacht* invaded France, Belgium, Denmark, Holland, Norway, and Greece, it was fueled by Soviet oil, fed by Soviet grain, dressed in Soviet-supplied cotton, equipped with weapons made from Soviet minerals, and firing ammunition and dropping bombs made with Soviet phosphates.

The Soviet Union has, for the past 40 years, attempted to portray itself as the world's foremost fighter against fascism. Tourists visiting the USSR are steered to monuments, museums, and exhibits extolling the "Soviet struggle against fascism." For internal and external consumption, the Soviets make much of their great sacrifices, the loss of 20 million people, Stalingrad, etc. But a more honest look at history reveals that, while the Soviets' war with Germany was indeed a horror for its people, the Soviet Union was most certainly not an innocent victim of the Nazis. The truth is that the Soviet Union nourished and protected a monster. They were delighted to join in the Nazis' takeover of Poland for half the territory. With German approval, they eagerly seized and devoured Latvia, Lithuania, and Estonia. The Soviets had only praise for the Nazis—until, in June 1941, they were stunned to find Hitler now turning on them. The Soviet government, at least, deserves as much sympathy for losses in World War II as a maimed terrorist whose bomb went off in his hand.

The Soviet Union's current explanation for their pact with Hitler is that they were only "buying time" in order to build up their forces sufficiently to resist the Nazis. But this argument is patent nonsense. Desperate attempts by England and France to have the Soviet Union join in an anti-fascist pact came to naught. This would have been a highly effective means of "buying time" and of demonstrating any genuine opposition to Hitler's fascism.

A more accurate explanation of the Soviets' motivation for joining Hitler is provided by a secret Soviet cable intercepted and deciphered by German intelligence. The cable (dated March 8, 1941, and apparently sent to Soviet embassies in Europe) discussed the Soviet position on the recent Nazi invasion of Greece. "The Soviet Government will not interfere with German activity against Greece; this is necessary in order to exert pressure on the English colonies," declared the cable. "We wish to emphasize at the same time that we are not thinking of jeopardizing the German-Russian treaty, which is necessary for the achievement of *the most urgent goal, namely the destruction of the English Empire*" (emphasis added).

Hitler's war machine was fueled by Soviet oil, fed by Soviet grain, and equipped with weapons made from Soviet minerals.

A deeper revelation of Soviet motives lies within a January 1925 address by Stalin to the Central Committee. Should war break out between the capitalist nations, Stalin had said, "We will have to take part, but we will be the last to take part so that we may throw the decisive weight into the scales, a weight which should prove the determining factor."

While the Soviet Union suffered great losses fighting its former partner in crime, in the end it benefited enormously. The Yalta Agreements, along with its new stature as an "equal" among the great Western powers, provided the Soviet Union with more territory and resources than it could ever have gained through its pact with the Nazis. Perhaps more important than the nations and wealth it had added to its empire was the Soviet Union's newly found "legitimacy" and its opportunity to forever hence portray communism as a system and philosophy morally opposed to fascism. The truth, of course, as the captured documents clearly reveal, is that the Soviets had no moral or other objections to Hitler's fascism; they were delighted to supply the Nazis with whatever Hitler needed to crush and enslave Europe—as long as they could share the loot.

The Soviet Union is still with us—and, as in the 1930s, its existence is a fundamental element in Western foreign policy. But now, 40 years later, the Soviet Union's impact has grown exponentially and is felt, feared, and pondered in every country on the globe. Fifty years ago it was the presence of the Soviet Union that cowed the Western nations into allowing the Nazis to come to power. Today that presence—the threat of a horrible, inhuman, evil totalitarian system—has much the same effect on contemporary foreign policy. Fearing Soviet power, the West supports various regimes that, were they not anticommunist, would otherwise be unworthy of alliance with America and association with our principles of democracy and liberty.

Imagine what the world would be like without the Soviet Union: It would be very difficult if not impossible to resist the moral force of those who argue that the US government should not support authoritarian regimes like those of Chile, South Korea, the Philippines, or the corrupt African states. The only possibly valid rationale for doing so now is that the possible alternative—the spread of the Soviet system—is so much worse. We fear that a nation will fall to the Soviet sphere not only for the horrors such a system invariably inflicts upon its citizens but because, once Marxist-Leninists take control with their Soviet or Soviet-proxy advisers, mercenaries, and military aid, the democratic process is forever crushed. But right-wing dictators supported by the US government should realize that support is more a result of the threat of Marxism than of any affection for them or their policies.

Without the Soviet Union, the world would undoubtedly be a better place. The Soviets, to varying degrees, have been behind World War II, the Korean War, Vietnam, the Cambodian holocaust, the cruel regimes of Eastern Europe, genocide in Afghanistan, the island prison of Cuba, aid for a war in El Salvador via Nicaragua, starvation in Ethiopia, global terrorism, and of course the slaughter of millions of its own citizens. So as the Soviets boast of their "great role" in fighting fascism 40 years ago, we should remember the damning facts that they conveniently ignore. ◻

Alexander Jason is an international security consultant and the president of the Republic Institute in Emeryville, California.

A Dubious Debt Doubt

Do you believe, with many economists, that Uncle Sam will have to "inflate away" the ballooning national debt? Well, think again.

by Joe Cobb

Economic policy in Washington today centers around the budget deficits and the mounting national debt. Politicians always want to spend—but nobody can propose any new spending programs until somebody figures out how to pay for all the old ones! There is no serious thought, however, of paying off the national debt nor even of stopping its growth, since that would mean actually balancing the budget. Starting to repay the debt would mean the federal government's annual budget would have to be in surplus—a quaint 19th-century notion to most people in Washington.

Most people believe the national debt or the annual budget deficit, which is the *increase* in the debt, are terrible economic things, monsters that cause all sorts of economic problems. The director of the Congressional Budget Office, Rudolph Penner, interviewed in *U.S. News & World Report* last August, was asked, "What will happen if nothing is done to reduce the debt?" He replied, "Eventually, there is little choice but to inflate the debt away. Obviously, if you have inflation, the outstanding debt is worth less in real terms."

This view that the debt must inevitably lead to inflation in the long run is widely held, but it is entirely wrong. Not only is there no connection in our modern economic system between government debt and inflation, but the very existence of deficits—the government's ongoing need to borrow—helps to prevent inflation!

How could this seemingly contrary conclusion be accurate? And how could well-regarded economists like Rudolph Penner claim that government fiscal policy in the long run would benefit by resorting to the printing press? The answers require a look at the nature of the government's debt today and the differences between our modern fiat money system and the classical version of paper money.

What makes the inflate-away-the-debt conclusion so apparently sensible is the fact that inflation depreciates the monetary unit, so that a nominal sum payable in the future (in this case, the government debt) becomes worth less in real terms. But it is also the case that the expectation of inflation drives up interest rates: If a return of inflation is possible, rather than being caught with their pants down, buyers of debt are motivated to get back as much as possible of their principal before inflation occurs.

The four years of gigantic deficits since 1981 have seen inflation fall from 13 percent to 3 percent. But while interest rates have also fallen—by 10 percentage points (from 20 percent in 1981 to 10 percent in 1985), they have not returned to the low historical levels that 3 percent inflation used to produce. The last time inflation was 3 percent, interest rates were 5 percent.

Obviously, many investors in the government's debt are worried by the possibility of inflation. But of all the reasons why we might see a return of inflation in the next 10 years—"irresponsible growth," a bailout of the banking system, gimmicks to weaken the foreign-exchange value of the dollar—the ballooning national debt and budget deficits are not part of that risk. For a return of inflation would have a perverse impact on the debt.

There is an implicit assumption behind the inflate-away argument that the national debt is like a single fixed-rate obligation, comparable to many home mortgages. The government debt, however, is quite diverse in its composition; it is composed mostly of short-term securities that are not vulnerable to inflation, so nothing could be gained by the government if it tried "to inflate away the debt."

The debt is more like a variable-rate mortgage than a fixed-rate debt. Rather

than wiping it out, then, expectations of inflation—by propelling interest rates—*tend to make the debt grow faster.* This seems to be what is occurring today.

At the end of fiscal year 1984, the accumulated government debt of the United States was over $1.5 trillion. Interest on the debt during the fiscal year was $154 billion. The total deficit for the year—the *annual increase* in the debt—was $175 billion. If it had not been for interest on the debt, the deficit in 1984 would have been only $21 billion. It is clear that a high interest rate on the debt is a major cause of its rapid growth.

How much of the federal debt is vulnerable to inflation? The government debt comes in three "marketable" forms: Treasury bills, notes, and long-term bonds. There are also some nonmarketable varieties. Long-term Treasury bonds are issued for maturities of 10-30 years; Treasury notes are issued for 1-10 years; and T-bills are issued for less than a year, typically 90 and 180 days.

As the table shows, about $357 billion—nearly a quarter of the total debt in 1984—is in T-bills. This sum has to be rolled over in such a short period that the Treasury holds weekly auctions, and the buyers get the debt at a discount rate. The faster inflation moves, the deeper the T-bill discounts become. Clearly, the short-term debt is not vulnerable to inflation. To be vulnerable, the bond-holder has to be locked in.

As of October 1984, there was only $158 billion outstanding in the form of long-term Treasury bonds. These have a fixed interest rate and could be devalued in real terms by inflation, but they represent only about 10 percent of the total debt. Some of these will be maturing in the next few years, so the real exposure to inflation for investors who are locked in to long-term bonds is even less. There was about $662 billion in medium-term Treasury notes outstanding, but only $165 billion had more than five years to maturity—about another 10 percent of the total debt.

So the marketable obligations of the US government that even *could* be wiped out by inflation amount to only about one-fifth of the total. How could the debt be inflated away if only a fifth of it is vulnerable?

What about the nonmarketable debt? This was $383 billion, about a quarter of the total, and it could be wiped out by inflation. The long-term notes and bonds together with the nonmarketable debt are about 45 percent of the total. Yet the nonmarketable debt is owed by the general fund of the Treasury to other government trust funds, such as the highway trust fund and the Social Security system's trust fund.

How Uncle Sam's Debt Stacks Up

US Public Debt by Maturity and Ownership
(dollars in billions)

Fiscal Year	Bills	Notes	Bonds	Non-Market	Total
1984	$356.8	$661.7	$158.1	$383.0	$1,572.3
	22.7%	**42.1%**	**10.1%**	**24.4%**	
1983	$340.7	$557.5	$125.7	$351.8	$1,377.2
	24.7%	**40.5%**	**9.1%**	**25.5%**	
1982	$277.9	$442.9	$103.6	$316.5	$1,142.0
	24.3%	**38.8%**	**9.1%**	**27.7%**	
1981	$223.4	$363.6	$96.2	$313.3	$997.9
	22.4%	**36.4%**	**9.6%**	**31.4%**	
1980	$199.8	$310.9	$83.8	$311.9	$907.7
	22.0%	**34.3%**	**9.2%**	**34.4%**	

Sources: US Treasury, Monthly Statement of the Public Debt, Table I; Treasury Statement of Receipts and Outlays, Table IV (D)

A close look at the government debt reveals that only about a fifth of it could be inflated away.

The amount of debt that is truly "locked in" can't justify the conclusion that inflation is likely to solve the debt problem, because the government can't afford to wipe it out. What is the likelihood that some future government policy will deliberately "inflate away" the Social Security trust fund? The likelihood is zero! Social Security benefits are indexed for inflation and would increase at the same speed as the nonmarketable trust fund bonds, which are held to pay the benefits, were melting away. There is no way to get rid of the unfunded Social Security debts.

The very idea that inflating away the debt may be a policy option is so absurd that we can only conclude the economists, journalists, and stockbrokers who repeat such a notion haven't done their homework. They haven't looked at the facts or asked themselves how or why it might happen. Yet many intelligent people believe this clearly impossible theory.

Those who believe the government's ballooning debt might bring a new inflation are not just full of hot air, however. Inflation remains a very real threat today, and there has been a long tradition of governments inflating away debts! The father of modern economics, Adam Smith, in his famous book, *The Wealth of Nations* (1776), noted critically that no

government had ever paid off its debt. After he died, the US government did actually pay off its Revolutionary War debt, but at about the same time several state governments defaulted on bonds. What is different today is the nature of a government's money.

The kings and governments that Adam Smith wrote about two centuries ago worked under a monetary system very different from the one we have today. When they borrowed money—or collected taxes—they received gold and silver coins. They seldom found it politically convenient to use the same coins to pay debts, however; it was easier to clip off part of the metal or to melt the coins and issue lighter, debased ones instead. The easiest way of all to repay creditors, of course, was to issue paper money.

But, while the classical monetary system was based on coins, the modern monetary system is purely bookkeeping entries and credit! Bank credit makes up two-thirds of the M1 money supply that is regularly reported in the news; the government's "bills of credit" circulate as paper money. And the coins are mere tokens of copper and nickel that have a metallic value much less than today's free-market price of the silver that coins of the same denominations used to have only 20 years ago. Modern central banks don't actually use printing presses to cause inflation. They expand credit.

The idea that inflating away the debt may be a policy option is so absurd that we can only conclude the economists, journalists, and stockbrokers who repeat such a notion haven't done their homework.

When the monetary system is based on nothing but government credit, inflation is a loss of credit worthiness. Individuals rush to exchange their credit-money for tangible assets, houses, and land and refuse to lend money (that is, extend credit) to businesses except at interest rates high enough to hedge against the worst possible loss in real financial asset values. The real value of all the stocks traded on the New York Stock Exchange declined more in the period from 1970 to 1981 than in the depression period from 1929 to 1933.

Modern inflation is decapitalization. When a government can't borrow any more, it is helpless. The printing press is not useful when nobody will accept the money. If "inflating the debt away" were a policy option, we might ask why now, in the wake of the worst inflationary episode in America's modern history, the debt is larger than ever before!

The argument that governments eventually resort to inflation to solve their debt problems, because they simply cannot borrow any more and they can't possibly repay their debts anyway, presumes a special power of "sovereignty"—legal tender—that governments no longer really possess. They effectively abandoned it when they abandoned gold and silver coins. There is no longer any "real money" in the system for the governments to rip off. They have already taken it all out of circulation!

Modern governments are now wholly dependent upon the willingness of private parties to lend. This loss of sovereignty is quite obvious in the case of Latin American governments. Those governments have to carry debts denominated in currencies that they cannot themselves print: US dollars. Even the *citizens* of most Third World countries, and of many industrialized nations as well, keep their savings denominated in units of currency that their own government does not issue! In Israel and Argentina the people openly avoid using their government's money—much less buying bonds the government could "inflate away." In the United States it is not so obvious, but even here the degree of freedom-of-choice in money is wide.

Ironically for conservatives who agitate for a balanced federal budget, and perhaps even some repayment of the accumulated national debt, the achievement of that policy would take away a government's primary incentive to hold down its inflation rate—its dependence on a good credit rating. If the Treasury didn't have to sell T-bills every week, it wouldn't have to worry about the discount that its lenders demand as an inflation hedge. It wouldn't have to worry about its debt growing faster than the rate of real economic growth. The big spenders in Congress would no longer be silenced by the argument that budget deficits are our number-one problem. They would be free to rediscover all sorts of "national need."

A government with no current deficit, and therefore no further dependence upon creditors for new loans, would be a strong and independent sovereign. But that is not necessarily good if the government still has its pockets lined with old debts, incurred by a prior crew of big spenders. A strong government could, for example, insist that bondholders accept little green pieces of paper, which pay no interest, in exchange for large green certificates that pay 10 percent or more and eat up tax balances that the younger generation of politicians would certainly prefer to spend on new public works and subsidies.

There may be a terrible, new inflation in our future that could devastate our still basically free-market economy. But the ballooning national debt won't be the cause of it. ◻

Contributing Editor Joe Cobb is an economist with the Joint Economic Committee of Congress.

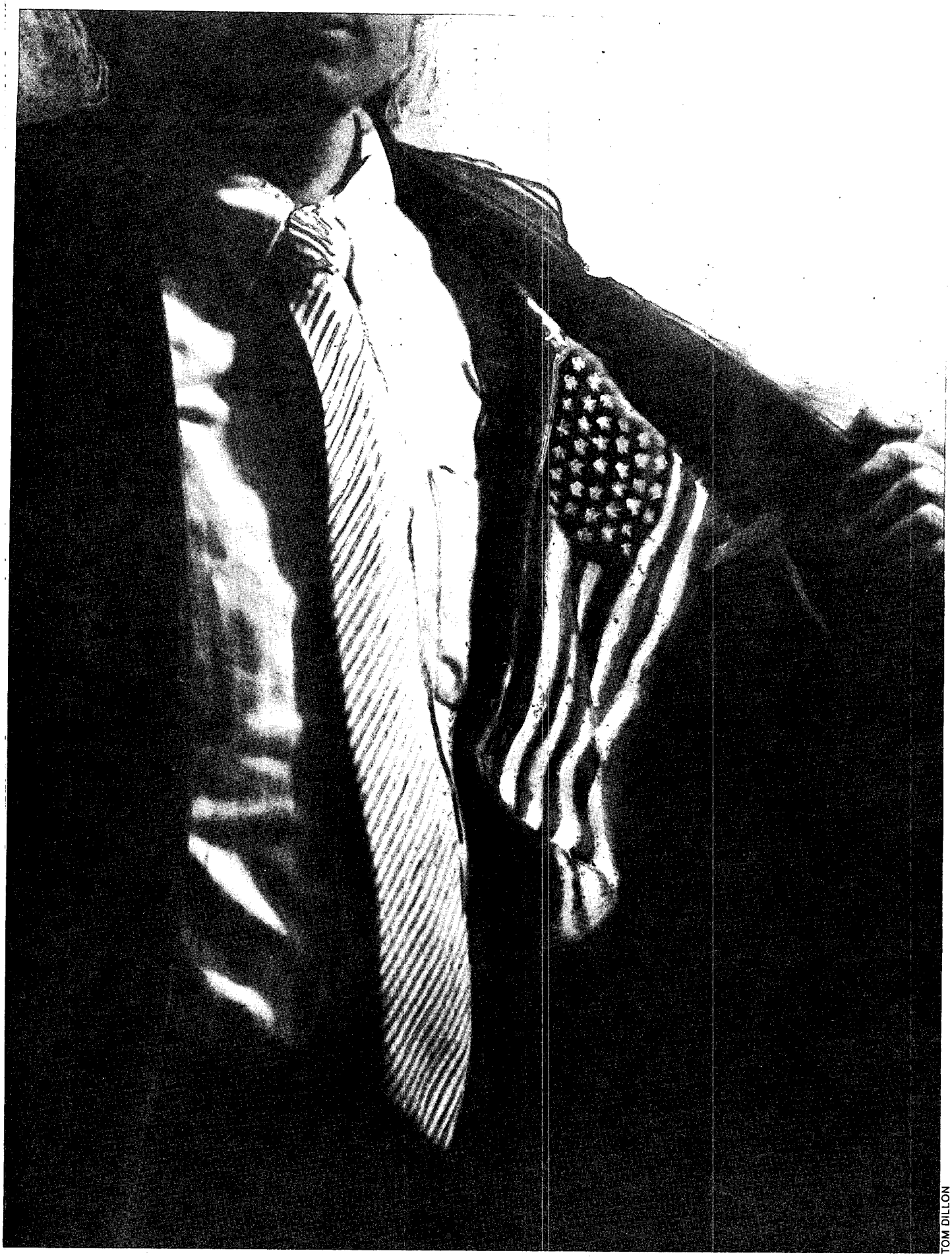
Confessions of an Anti-American

I would like to make a full public confession. Perhaps it could be in a Senate committee hearing, where, in the glare of television lights, a jowly senator would ask me, "Are you now, or have you ever been, an anti-American?" I would wave away my lawyer's attempt to plead the Fifth Amendment, stare up at my inquisitor, and sadly confess that indeed it is all too true—I was once a card-carrying anti-American.

Of course, I would have to admit that this was during my youth and that I am no longer associated with the worldwide anti-American movement. I would be expected to name names, as they say. This would not cause me any great pangs of conscience, since almost everyone who is not an American is, in some sense, an anti-American. In fact, I would probably accommodate the senators' request with a random reading of names from the Parisian telephone directory.

Presumably, the senators would quickly tire of this dull recitation and, wishing to regain the camera's attention, thank me

By Peter MacKinnon



TOM DILLON

for my courage in coming forth to reveal this disturbing worldwide situation. After my confession, I would attend a press conference where the world press would closely question me. After all, it's the worst-kept secret in the world—America is almost universally disliked.

Before I explain what I mean, perhaps I should describe my credentials for speaking on this subject. I am a Canadian who grew up 30 miles from the American border during the late 1950s and early '60s. We Canadians know a great deal about the United States from our shared history on the North American continent, exposure to the same cultural influences, and, of course, extensive economic and social interaction between the two countries. Indeed, it is my experience that the average Canadian would score well in any test of knowledge of American history or politics.

On the other hand, it is a source of irritation to my fellow Canadians that the average American has great difficulty even distinguishing Canada's capital, Ottawa, from our country's most populous province, Ontario. I can remember from my own ill-spent youth of pumping gas for American tourists how many questions they asked me that betrayed profound ignorance of the country they were visiting. I remember one gentleman in particular who stared out over the expanse of Lake Ontario while I tended to his car and inquired of me as to the name of that particular wide river he saw before him.

This lack of interest in a country with which they share a culture and a continent might have been responsible for the first stirrings of my dislike for these people called Americans. For most Canadians, there are additional reasons for animosity. Some 70 percent of Canadian industry is owned by the cousins to the south, and moving from a colonial status under Great Britain to a kind of economic colonialism under the United States is no easy matter for an independent people like Canadians to accept.

American companies, sensitive to the problem, sometimes camouflage their American roots by naming Canadian subsidiaries and products to satisfy Canadian sensibilities. For example, Standard Oil's Canadian subsidiary is Imperial Oil, and Ford originally manufactured a car called the Monarch for Canadian consumption only. But these misguided attempts to appeal to Canadian nationalism by invoking Canada's former colonial status do not fool the Canadian. He knows that his economy is the property of his southern neighbors and, for a variety of reasons, he seems condemned to have a lower standard of living than they.

Periodically, Canadians lash out at America, as in the recent abortive attempts by Ottawa to nationalize the oil industry. But eventually, after these fits of economic nationalism, they come back to their senses and resign themselves to acceptance of the better standard of living that comes from being an economic "partner" of the United States.

It's the worst-kept secret in the world—America is almost universally disliked.

Politically, a Canadian has enormous latitude for expressing anti-American feelings. I remember the smug satisfaction Canadians felt during the 1960s as America was convulsed by racial rioting and antiwar activities. For once, Canadians could feel morally and politically superior to their powerful neighbors. We would rush down to the US consulates and protest Washington's latest irresponsible act in the world. We welcomed draft dodgers as men of moral courage who saw the error of their country's ways and, by inference, the superiority of the Canadian way of life. We welcomed peace and saw America as a promoter of war.

Of course, none of this was ever expressed officially by our government; that would have been inconsistent with Canada's best interests. So we could have the best of both worlds: we could express our anti-American attitudes privately while enjoying the physical and economic protection that association with the United States brought us as a nation. But I was soon to find that this hypocritical attitude is not an exclusively Canadian phenomenon.

When I took up residence in London during the late 1960s, I arrived with a particularly sophisticated form of anti-Americanism. I and other Canadians knew the nuances of American life because we shared them, as a Lithuanian might have a more solid basis for understanding the Soviet Union than, say, a Cuban would. By contrast, the British wing of the anti-American movement betrayed an almost primitive understanding of the object of their enmity. It was in Britain that I first became a little embarrassed at being part of this movement.

It became clear to me that the root of Britishers' anti-American attitudes was a failing world power's resentment of its successor. They would do bad imitations of New York accents and, even worse, they made fun of the physical appearance of American tourists. Of course, people everywhere joke about national differences, but underlying Britishers' jokes I sensed a sad bitterness.

Like everything else in Britain, anti-Americanism had two distinct accents, upper-class and working-class. The upper class viewed Americans as slightly barbarous. Indeed, they tended to regard Americans in much the same way they regarded their fellow citizens of the working class—and, for that matter, anyone who did not share the cultural comforts of exclusive schools, cultivated accents, and privileges of position. For the first time in my life, I (along with Australians, New Zealanders, and Americans) experienced upper-class Britishers' silly belief in superiority based on class. We "colonials," as we were collectively called, had some difficulty relating to this form of prejudice. We generally shared the belief that a person's worth is based on his efforts, not his forebears.

After the initial shock, it struck most of us as hilariously funny that anyone could seriously expect to be judged on the basis of his lineage. Unfortunately, it was not quite so funny to those sons and daughters of the working class who were attempting to rise into the British professional classes. Nor was it particularly

amusing to Pakistanis, Indians, and Jamaicans who had to stay and endure this stupidity or return to a poorer life at home. On the other hand, we Americans, Canadians, and Australians did have a choice in the matter, and most of us eventually chose to go home.

For the first time in my life, I experienced prejudice as its object. What's more, I was being categorized with *Americans*—the object of my own particular prejudice!

If the British upper class's version of anti-Americanism was based on presumed cultural superiority, the working-class version was more political and economic. Since the working class is the main constituency of the Labour Party, which still sings "The Red Flag" at its conventions, one would not expect much sympathy for the United States there. Interestingly, though, I found that working-class hostility rarely took the form of personal animosity toward Americans. Rather, it was expressed as a generalized belief in the struggle of socialism against capitalism—and since America is the principal bastion of world capitalism and, in these circles, militarism, it was considered the enemy.

We "colonials" were most familiar with this type of anti-Americanism, which took the form of ban-the-bomb parades and solidarity meetings for the blacks in Alabama. These conspicuous displays of anti-Americanism received a great deal of attention in America. But an important point was consistently overlooked: any protest against America and its actions in the world is animated by a profoundly irrational resentment.

If I required any further confirmation of this fact, I found it during a brief residency in Paris. One thing can be said for my French ex-colleagues in the anti-American movement: they do not suffer from the hypocrisy of their Anglo-Saxon counterparts. Even the dullest American tourist from Wichita has experienced the full force of the Frenchman's disdain. This admiration for Gallic honesty must be tempered, however. I once inquired of a Parisian taxi driver as to the source of this animosity toward Americans. He explained, with some pride, that Parisians are not merely anti-American, they are simply against the entire human race. As a Canadian, I can attest to this.

Despite my qualms about associating with this somewhat primitive European wing of the anti-American movement, I continued to persist in my belief that my anti-Americanism was based on an objective judgment. Whereas European anti-Americanism is founded on the envy of a people who no longer enjoy power in the world, mine was founded on a substantiated critique of American policy in the world and at home. Who could dispute the facts of Selma, Saigon, and Watergate? Not even most Americans could defend their country's sometimes stupid and cruel behavior. Indeed, Americans themselves provide the best ingredient for the meal that we "antis" devour every day.

Any protest against America and its actions is animated by a profoundly irrational resentment.

Yet it is difficult to persist in a perpetual negative belief system, and I cast about for alternatives. Perhaps a glance at the other side of the world would prove instructive. What lessons could be learned in East Berlin, Prague, and Budapest?

I had never quite accepted all that "evil empire" business, so I journeyed to the Communist world with a mind willing to believe the best. As a Westerner, I found myself being constantly accosted by people in restaurants and hotel lobbies who told me how terrible their lives were (as if I needed the confirmation of what my eyes showed me) under this repressive system. They told me of how they envied my freedom to travel, to read what I want, and to say what I please. Their painful sadness was not economic, political or cultural; it was the personal anguish of not being able to live freely.

A young woman on a train from Prague to Brno in Czechoslovakia stands out in my memory. An engineer, she described the pleasure of that brief spring of 1968 when she could travel freely to Vienna just to see a movie. She told me how the majority of her fellow citizens hated the Russians and their own lives now. I replied at one point with a passing reference to Orwell, and she told me that his works are now forbidden in Czechoslovakia. When I later sent her a copy of *Nineteen Eighty-Four* and *Animal Farm*, she wrote to thank me and said that Orwell wrote as if he knew her own poor country.

I think sometimes about the callous, stupid American in his large car who doesn't know anything about a lake in a country he cares nothing about, and that woman on the train who aches only to live life as she chooses, and I am embarrassed by my earlier lack of understanding of the difference. How petty is my resentment of the unlikely representative of American democracy compared to my anger over a very different system that stifles individuals' purpose in life—simply to live freely. Yes, we should criticize the American system, for freedom to criticize is part of our purpose, too. But we should not lose sight of what makes it possible for us to be anti-American—the best of the American tradition.

I live in the United States now. I can find new reasons for criticizing Americans. We who sit in a tavern in Bonn or a club in Norwich or a restaurant in Lyon or a cafe in Barcelona or a trattoria in Milan or a bar in Rio or anywhere where people can gather and complain and argue—we all know, don't we? We anti-Americans, we complainers and critics of America, we all know that our words come from our resentment of these people. We resent these people who dare to reflect the imperfections of us all—these people who possess the most incredible power the world has ever seen and yet use that power to leave us the freedom to criticize them.

That's my confession of anti-Americanism. I suppose that as long as I'm not an American, I'll always be somewhat of an "anti." Yet I know that if I decided to become an American citizen tomorrow, my views would not differ greatly from the average American patriot's, because dissent is their curse and their salvation. Long live America. ◻

Peter MacKinnon is a free-lance writer and the co-owner of an architectural firm in Los Angeles.

By Tom Brosz

The Priesthood Of Space

SUSAN SALLADE

The key to the exploitation of space is low-cost, reliable space transportation. Competition in this arena has become intense, dominated by government-developed space vehicles such as the National Aeronautics and Space Administration (NASA) Space Shuttle and its major rival, the European Ariane rocket. Now, attempts are being made by private industry to enter the fray.

Central to all this recently has been a heated battle in the halls of government over Shuttle pricing policies. Proposed prices range from $42 million to over $150 million for a full Shuttle payload bay (subsidized by the taxpayer—the true cost of a single Shuttle flight has been estimated at nearly $250 million).

NASA is attempting to keep the Space Shuttle's customer prices as low as possible to remain competitive. The agency is supported in this by existing and potential Shuttle customers.

On the other hand, US companies attempting to privatize government-developed expendable launch vehicles (such as Transpace Carriers, Inc., which is privatizing the Delta launcher) are pressing for higher prices, blaming NASA's "predatory" pricing policies for a lack of customers for their systems.

Waiting in the wings are other private entrepreneurs with new concepts for future reusable space vehicles. These concepts (such as Third Millennium, Inc.'s winged *Space Van* or Pacific American Launch Systems' *Phoenix* launch vehicle) represent a promising source of low-cost space transportation. Yet these entrepreneurs have been largely unsuccessful in finding investment capital, and like the expendable launch vehicle companies, some have placed the blame on NASA's artificially low prices.

Although NASA is doing all it can to protect its Shuttle from competition, pricing policy is *not* what's keeping these proposed new space systems from leaving the drawing board. A quick look at prices shows this.

The (subsidized) price that a customer would pay to place a typical 5,000-lb. payload into Earth orbit on the Space Shuttle is about $1,000 per pound. The same payload, flying on a *Space Van*, would cost the customer only about $300 per pound. Launching it on a *Phoenix* vehicle would bring the price down to less than $50 per pound!

If all three systems were competing on the open market, the most profitable thing to do with the Space Shuttle would be to tow it into Los Angeles and make a restaurant out of it. If prices are not the main issue, then what is preventing long-term investment in new launch concepts?

NASA's main weapon against possible competition is its position as an "authority" on space. Investors, often unfamiliar with the space field and seeking outside opinions on new launch systems, almost invariably gravitate toward the only recognized group of "experts": NASA and the contractors who build NASA's systems. Needless to say, the new ideas do not receive glowing reports.

This happened in the computer industry several years ago, when established companies were convinced that no market existed for personal computers and told many entrepreneurs and investors so. Space transportation, however, is a special case for a couple of reasons.

First, a frustrated computer entrepreneur can stalk off to his garage, build his machine with proceeds from selling his car, and market it himself. The rocket entrepreneur has a tougher go. The amount of money required to develop launch systems in the private sector is immense. Not only is such financing out of the reach of the typical entrepreneur, but the sources of this kind of money are noted for their conservatism.

A second factor is that NASA has encouraged the attitude that space activities are in some way beyond the realm of normal human activity and can be accomplished only by the sort of technological "priesthood" that NASA represents. This aura of mystery around space is enhanced by complex rituals surrounding even the simplest space activity, by the arcane, acronym-studded language of the priesthood, and by complex, unknowable machines, plated with gold like ancient idols.

This "priesthood" syndrome is common in a government that sets itself and its representatives up as the wellspring of all human virtues. (For example, the federal departments concerned with health and welfare declare themselves the fountainhead of compassion, without which the private sector would presumably decay into a rapacious orgy of predation on the weak.) Still, NASA has been more successful than many other government departments in this role.

How envious the more mundane federal agencies must be as NASA produces spectacular launches, wondrous pictures of the planets, and live television from the moon! (As with any other priesthood, the occasional miracle never hurts.) To bring up funding in the same breath seems almost crass.

So effective is NASA's priesthood that many space enthusiasts of a liberal bent, who look with disdain at the spending habits of the Department of Defense, hold only admiration for the way in which NASA disposes of its funds. Faced with the NASA mystique, is it any wonder that conservative investors are easily cowed?

This distorted worldview cannot be dealt with as easily as can the issue of unfair price subsidies. It can only be dealt with by educating people that experts should be judged by facts, and not by the vestments they wear or the language they speak.

Tom Brosz is editor of Commercial Space Report *newsletter.*

By Mark Skousen

Real Riches

How do you spell relief for the cash-poor investor? Forget about commodity futures, stock options, blackjack, and the lottery. For someone who has very little ready cash, the fastest way to make a fortune in today's uncertain market is real estate.

Consider the case of Jeff Rickerson, an unemployed student in his twenties whom I met on a Caribbean cruise last year. Jeff made $10,000 on his first real-estate deal, using only $2 out of his own pocket!

Here's how he did it: After being fired from his job as a bank intern in Jefferson City, Missouri, he became interested in real estate by attending Bob Allen's "Nothing Down" seminar. He discovered a house that was furnished but unoccupied. He contacted the owner by spending $2 at the county courthouse for ownership records and inquiring at the post office for a forwarding address. The owner had lost his job and had gone back home to Mississippi. He was still making payments on the house, but he desperately wanted to sell it.

Jeff offered to take over his mortgage payments and handle all the paperwork by mail so the owner wouldn't have to return. The owner agreed to the proposal. "He was really grateful," Jeff said.

Because Jeff was broke, he went into partnership with a qualified person who could cosign the deal. That way he could qualify for taking over the $43,000 mortgage at the bank. He and his partner agreed to split any future profits on the house when it sold.

But before Jeff even took over the mortgage, he advertised for a buyer. He and his partner had to fix up the house some, but they didn't pay anyone until the closing. Jeff found someone willing to buy the property for $69,000.

Both the purchase and sale of the house were closed on the same day. Jeff walked away with $10,000 in his pocket!

Now, I know what you skeptics are thinking—*the chances of duplicating his feat are as likely as winning the million-dollar lottery.* Not so! I've met dozens of people who have made spectacular profits practically overnight—not only in single-family homes but in apartment buildings and commercial properties.

Admittedly, success stories like Jeff's don't happen every day, but his demonstrates the unique aspects of real-estate investing:

- You don't need a college education to become a successful investor.
- You can control large assets with little or none of your own money.
- You can be broke, or even heavily in debt, and buy real estate (banks won't allow it, but through "seller financing," anything is possible).
- Below-market bargains are available in real estate, because property is not a liquid investment and people face financial problems from time to time.
- Real estate has tremendous tax advantages and can be a good inflation hedge.

I've met people who have made spectacular profits practically overnight—in homes, apartment buildings, and commercial properties.

That's not to say that real estate isn't without its disadvantages. It frequently involves a high debt exposure, negative cash flow, tenant complaints, and a lot of paperwork.

It's not as easy to make money in real estate as it was in the 1970s. Taking inflation into account, many properties have dropped 30 percent or more in the last four years. But prices have bottomed out and are starting to recover.

Another threat is the possible reduction of tax benefits in the near future. President Reagan's "modified" flat tax proposal would cap net interest deductions at $5,000, extend depreciation schedules to 28 years (from the current 18 years), and impose a minimum tax on real-estate investors. The days of "zeroing out" your taxes through real estate are about to end, it seems.

Negative cash flow is the most serious problem facing the long-term real-estate investor. The tax advantages and the expectation of appreciated property values are the only reasons investors endure constant losses every month.

I've only scratched the surface when it comes to the incredible opportunities in real-estate investing. For free information on real-estate books, cassette tapes, and course material, write or call toll-free the Allen Group (145 East Center St., Provo, UT 84601; 800/521-2273). I strongly urge you to attend one of Bob Allen's "Nothing Down" seminars with over a dozen experts offering some extremely valuable tips.

If you are interested in buying single-family houses, John Schaub offers the best approach for most people. He shows you how to buy houses with only 10 percent down, at 10 percent below the market price, and with a mortgage at no more than 10 percent interest—and you still get positive cash flow! His 10-10-10 plan requires hard work, but he showed me two deals in California where his plan paid off. He looks for homes that (1) have been held for many years, (2) have an assumable mortgage at below-market rates, and (3) the owner is hungry to sell and can take back a 10 percent mortgage. Schaub's basic program is explained very simply on a one-hour cassette tape, available for $5 from Dominion Tapes (P.O. Box 8175, Tyler, TX 75711).

Finally, the time-honored approach of fixing up a house in need of repair and selling it for a profit still makes a lot of sense to me. Bill Nickerson popularized this approach in his classic book, *How I Turned $1,000 into Five Million in Real Estate—in My Spare Time!* (available for $18.95 from the Allen Group). This is capitalism at its best—it enhances the beauty of the community and still provides a handsome profit for the entrepreneur. Who needs government reclamation projects and subsidized housing?

Part-time real-estate investor Mark Skousen is editor of Forecasts & Strategies. *He lives with his family in the Bahamas.*

By Patrick Cox

Roark Redux

Fred Stitt, the most widely published architectural writer in the world, was thrown out of high school because of what he calls "political disagreements" with school officials. Those disagreements included his belief that he had the right to eat lunch where he wanted and to go to the bathroom without asking permission. "Little things," he says.

Though the high-school authorities had tried to push him into vocational-training classes, Stitt's actual interests were in art and science. At age 15, he read Ayn Rand's novel *The Fountainhead*, about the individualist hero-architect Howard Roark, and realized that architecture is the synthesis of art and science. The high-school dean promised to help Stitt get an early admission into a junior college to study architecture if Stitt would quit high school. Stitt quit, and the dean denied the deal was ever made.

When Stitt turned 18, he took the college's entrance exams, and his high scores won him admission. But in the middle of his second year, he was put in charge of the architecture department's exhibit at the school's open house. Members of the art department objected to the display, because it was more elaborate than theirs, and they complained to the college dean. The dean offered to not expel Stitt for having skipped some archery classes, if he would simplify the exhibit.

If the dean had known anything about *The Fountainhead*, he would not have been so satisfied when Stitt told him that he'd think about his proposal and left. "I got my team and locked the doors of the exhibit room so they couldn't change it," Stitt says. "The next day, I was out with straight Fs."

In 1960, he and his girlfriend worked their way across the country to New York to attend the Nathaniel Branden Institute, which taught the individualist philosophy of objectivism. "I've followed the objectivist-libertarian track philosophically ever since," Stitt says.

After his time in New York, he sought out the renowned architect Frank Lloyd Wright but couldn't afford the fee to study with him. So Stitt went to study with the relatively unknown architect Bruce Goff at the University of Oklahoma, because he considered Goff the most daring and inventive architect of his time. Today, Goff is known all over the world.

Fred Stitt

Stitt wasn't admitted into the university, however, so he decided to study on his own. "As I did," he says, "I saw that the profession was as thoroughly screwed up as it was depicted in *The Fountainhead*. But rather than take an adversary approach, I decided to take a problem-solving approach and study the profession, examine the problems, and sell the solutions."

In 1968, he went to Berkeley, where he says he managed to "finagle" his way into the architecture program at the University of California. He turned his research into term papers for his various courses. To support his girlfriend and son, he started a publishing company called Guidelines and started selling condensed versions of his papers as booklets, earning more money as a student publishing his work than he had ever made working in architectural offices. Though he never graduated, he passed the architecture-licensing exams with honors.

Today, Stitt has written more than 40 booklets and manuals on virtually every aspect of architectural practices. Lately, he has been republishing his work through McGraw-Hill, including his newest, *Designing Buildings That Work*, which is dedicated "to my first architectural mentor, Howard Roark."

Stitt writes and publishes the monthly *Guidelines Letter*, a newsletter on innovations in architectural and engineering practices with 7,000 readers. He also writes and publishes the *Errors and Omissions Bulletin*, a bimonthly report on the causes and prevention of building failures. He lectures widely for professional societies and universities. At the 1985 national American Institute of Architects convention alone, he will deliver four lectures. By 1986, he will have published 15 books.

Stitt teaches at Berkeley's architecture school and is creating a computerized private school and research institute to study market alternatives to such regulations as building and zoning codes and professional licensing.

Stitt is a harsh critic of state licensing of architects, which he believes "protects mediocrities." He sees a connection between licensing laws and building and design failures, and he intends to document it in a book entitled *The Slaughter of the Innocent*. His criticisms have not endeared him to the architecture establishment, though his presence as a speaker at top gatherings bespeaks the grudging respect in which Fred Stitt is held by his peers.

In addition to being an art collector and a self-described music addict, Stitt continues a 13-year-old project of visiting major world cultures, tracking the evolution and development of Western-style consciousness particularly as manifested in architectural design. Invitations to speak all over the world help Stitt with that pursuit. As part of that project, he is even undertaking a trip to several of the better-known police states. He'll be working on establishing architectural and ideological networks, but he suggests another major reason for the trip: "I'm kind of nostalgic for the kind of totalitarian repression that I experienced as a child in school."

Free-lance writer Patrick Cox is an analyst for a San Francisco investment firm.

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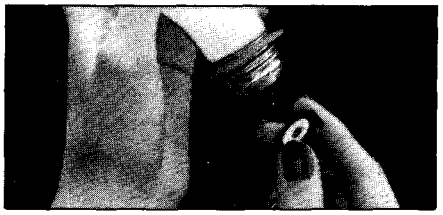
UL LIGHT BUTTON



They are familiar household conveniences now, the little half-wave rectifier buttons that attach to the bottom of light bulbs and extend their life up to 90 times, sparing you the trouble of bulb changing for years at a stretch while you save a bundle in bulb replacement costs. But the patented Screwge Bulb Saver is one of the first to be UL-listed, meaning it has survived nearly two years of strenuous independent laboratory testing and been certified safe for home and commercial use. It provides security along with savings, safe enough even for high-temperature recessed fixtures. You'll notice that Screwge Bulb Savers reduce light output so you may want to increase bulb wattage. We are offering 6 for **$10.00** ($2.95) #A1353 and 12 for **$19.00** ($3.95) #A1354.

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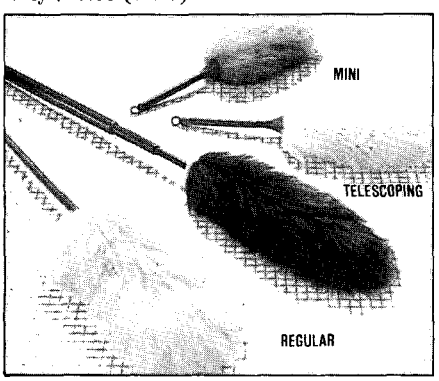
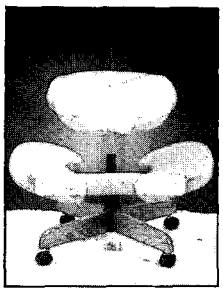
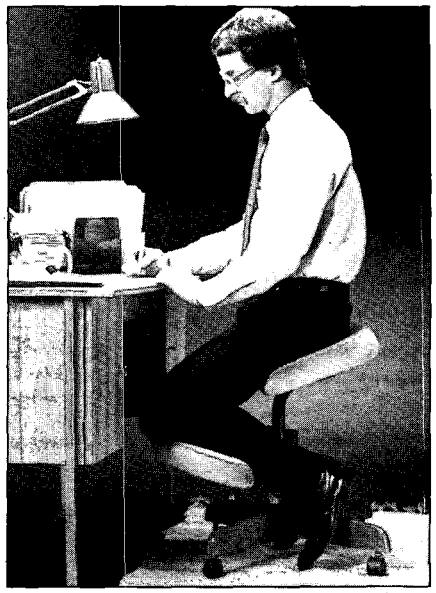


IT SWIVELS!



Backless "Back" Chairs have solved the age-old problem of proper seating, aligning the body on its natural axis so that sitting does not stress spine or back muscles. The redistribution of body weight is dramatically more freeing, natural, comfortable. But until now you had to give up mobility to sit this intelligently — these chairs were unidirectional and if you needed to change orientation you had the awkwardness of moving the whole chair. Finally it swivels! In its brand-new swivel incarnation, the Back Chair is suited for use at any work station, desk or table. The reinforced oak 4-star base has commercial-quality dual-track casters for easy manueverability over carpets or floors. Effortless swivel action. Manual height adjustment. Gray poly-cotton fabric over plush cushion. This is a new twist on a good idea and until you use it you don't know how relaxed and productive you can be sitting down. The price is a nice turn too, only **$69.00** ($11.95) #A1330. Minimal assembly.



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Most of the convenience waxes you buy actually dry out wood instead of nourishing it. What's the alternative? Our choice is Williamsville Wax. It is made of beeswax and lemon oil, heat-blended with other natural oils. It can be used on any type of wood, any type of finish, on paneling or kitchen cabinets as well as fine furniture. Williamsville Wax is super for restoring neglected or mistreated wood. Two 8-oz. bottles cost **$12.00** ($1.95) #A736.

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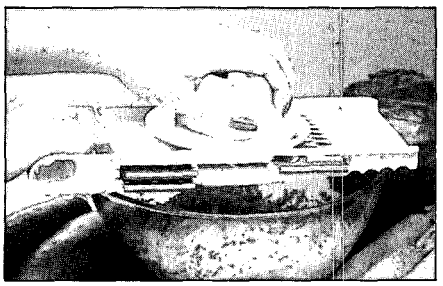

The Leifheit 4-in-1 grater is a sure-grip food holder that lets you work at top speed with no fear of flaying your fingers. Molded hand-grip gives sure control, indentations seat the grater securely atop bowls from 4½" to 9½" diameter. Blades are stainless steel, store right in grater frame, and provide choice of small and large shredders, medium grater, and ground-edge slicer. The unit itself is made of tough ABS plastic, dishwasher safe. Imported from West Germany. It's the first truly civilized grater we've seen. **$19.00** ($3.95) #A1233 each.

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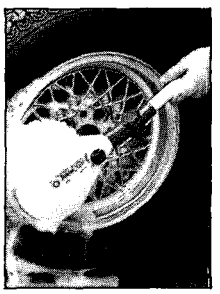
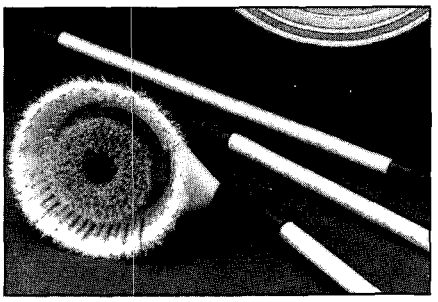


The Swirlon Rotary Scrubber turns an ordinary garden hose into an automatic cleaning machine. Water pressure spins the 5" inner brush for highspeed active cleaning while the 8" stationary outer brush contains the spray and sweeps away the loosened dirt. The Swirlon brush system gives much better cleaning results than the ordinary jet stream hose nozzle method. Swirlon also keeps mess to a minimum as the water stream, and soap is concentrated under the brushes — no more backsplash onto the person doing the cleaning. Brushhead adjusts to any of six angles for best cleaning, contains the soap reservoir for automatic sudsing and soft split-end plastic bristles for sturdy gentleness. Water flow can be shut off with a thumb-operated valve so there's no constant running back and forth to the faucet. Two 24" extensions provide a total reach of 70" — ideal for washing soffits, siding and second story windows. Makes short work of cleaning garbage cans, lawn furniture, patios and porches. **$32.00** ($3.95) #A1135.



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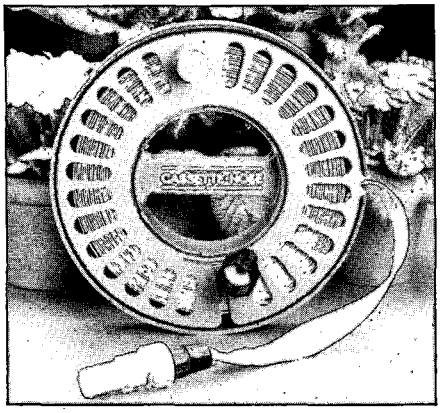
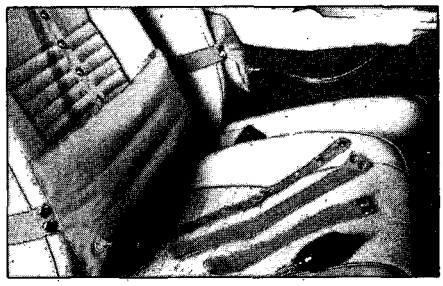


BEATING DRIVER'S BACK



You know Driver's Back, that painful tightening of the lower back muscles that does nothing but get worse as you struggle to get comfortable in a car seat. You can detour all that discomfort with the Spine Spoiler back support system. It lets you customize the seat to your back, thus relieving strain and providing proper posture control. The beauty of the Spine Spoiler is its fine-tuned adjustability — you can get the position and inflation to exactly the place that is right for you. The 2 way harness works with bucket and bench-type seats (and will also fit most chairs, including office chairs). The air cushion is made of a silky nylon fabric with detachable inflator pump. Deflated it fits easily in bag or briefcase. The Spine Spoiler has enthusiastic recommendations from doctors and professional drivers and costs **$21.00** ($2.95) #A1139.

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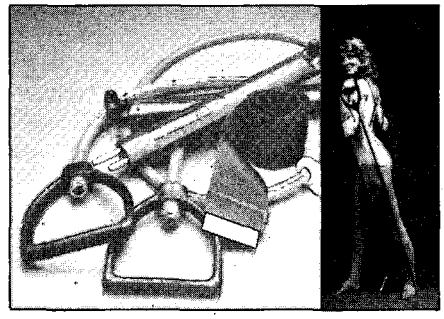

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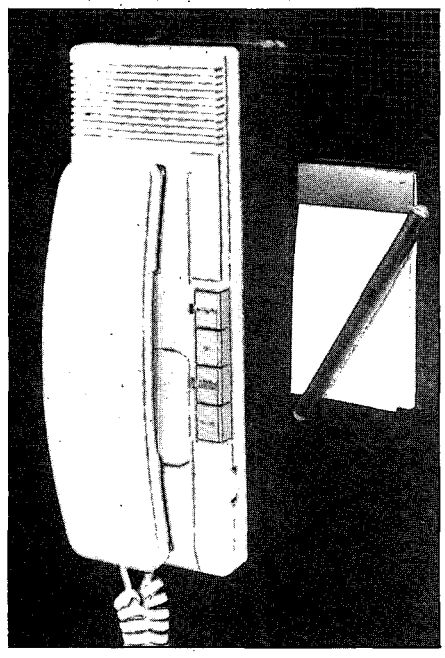

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What Are People Really Nostalgic For?

By Edward Cline

Nostalgia: 1. a severe melancholia caused by protracted absence from home. 2. any wistful or excessively sentimental, sometimes morbid, yearning for return to or of some past period or irrecoverable condition. (*Webster's New Collegiate Dictionary*)

Nostalgia has gripped the country, inflating the price of antique campaign buttons and even coloring our politics. The Moral Majority wants to return to

an era when society was governed by Christian ethics, oblivious to the question whether such an era ever existed at all (unless one's model is the Dark Ages, the Inquisition, or the Thirty Years' War). The Democrats hanker for a return to a Rooseveltian era of paternalist collectivism, to make us all one close "family" again, willing even to brave some pundit's dubbing a Mondale administration "Godfather III." The Republicans pine, too, but for the olden days of Eisenhower-era complacency, when the unchallenged moral basis of conservatism and capitalism was a condensed, comic book–style melding of those creaky classics, *Utilitarianism* and the Bible.

The phenomenon, however, is not without its positive side. There has been a renewed interest in 19th-century art, especially in Neo-Classical Realism. A number of capable young artists are quietly rediscovering the disciplines of painting and sculpture and have been delighting art-starved patrons around the country with contemporary themes and settings. There has been a revival of the well-made and Romantic play genres on the fringes of modern theater. Classical music and opera seem to be thriving still, thanks to the videocassette and the compact disk. Publishers, following the lead of Harper & Row, are reissuing the mystery and suspense novels of decades ago. A number of radio stations have brought back "drama" and "mystery" hours for their listeners. Antique shops specializing in the artifacts of late decades have proliferated in most of our cities. People are furnishing their homes and apartments in Art Deco. And, depending on the health of one's bank account, one can even book a roomette on the "new" Orient Express.

Even Hollywood is trying its hand at nostalgia. Morally bankrupt, esthetically banal, and intellectually mute (except when some well-paid denizen has a left-wing statement to make), it has appropriated the look, sound, and pace of the action movies of yore—at the expense of characterization, content, and plot. But while it is attempting to breathe new life into a form it helped to asphyxiate and will condescend to giving audiences as many thrills for their money as is technologically possible, Hollywood does have its principles: it will not take romanticism seriously.

The idea that there might be a need or even a demand for movies the unadulterated stature of, say, *For Whom the Bell Tolls* (1943), *Separate Tables* (1958), *The Four Feathers* (1939), or even the grandiose, almost Shakespearian *Lawrence of Arabia* (1962)—*sans* the coyness, *sans* the self-deprecating humor, *sans* the swollen-tongue-in-cheek—leaves producers and directors rolling in their lucrative aisles. What they give us are the James Bond films and increasingly complex science-fiction reels for which we applaud, not the cast, screenwriter, or director, but the third-unit camera crews and special-effects technicians.

Hollywood's more earnest efforts have produced *The Verdict*, a courtroom drama in the best tradition of earlier decades, except for its vulgarity and the fact that to win his case and rise from defeat and self-pity, the hero is obliged to commit a criminal action; *Ragtime*, an aimless sociological slice of naturalism, screenwritten and directed by aging sixties campus rebels, in which we learn that early 20th-century capitalists were either certifiably crazy or hopelessly repressed, and the middle class a bunch of posturing buffoons; and *The Big Chill*, which is *about* aging campus rebels and their guilt about being co-opted by reality, the establishment, money, and the necessity of being mature, responsible adults.

However, the nostalgia phenomenon is not entirely complimentary to our times, whatever relief it offers us. Such wide-scale preoccupation with the past is not the sign of a healthy, self-assured culture. If people choose to look to the past so much, there must be something there that they can't find in the present.

The phenomenon has not gone unnoticed. Critics, observers, and commentators have all looked for an answer. They sense that something is wrong. But they are not equipped to find an answer, as they are heirs to an intellectual movement that helped to destroy what people are looking for through nostalgia. In a recent *Harper's* article, Christopher Lasch opens with the statement: "Nostalgia was a medical term until this century, and it has never completely lost its patho-

logical overtones." This is a true enough statement. However, in the discussion that follows it, the clearest sentence to be found is, "Intellectual as well as emotional objections militate against the claim that nostalgia springs from a clear understanding of the downward course of our civilization." Though of awkward syntax, this is a perceptive observation, but it is lost in a swamp of sociological gibberish.

Lasch's article is typical of many, addressing the issue almost exclusively in terms of a social malady and never in terms of values. This is tantamount to addressing the issue of hunger without considering the role of food. Most of these essays end inconclusively, because their authors are incapable of delving further into the kernel of the problem, which is the fact that values must first originate and reside in *individuals*, and only then—if at all—in groups. The causes of cultural nostalgia must forever remain inexplicable to these writers, for they are no longer (if they ever were) able to think of man, or even of men. Their concept of man is not an abstract symbol derived from his nature in reality, but an amorphous mountain of living bodies straining pointlessly and futilely for an eternal reason forever elusive.

If one were to rename the phenomenon of cultural nostalgia with more precision, one would have to call it the "value crisis syndrome." (Ayn Rand wrote the best discussion of what preceded nostalgia in her essay "Our Cultural Value Deprivation.") Nostalgia, if its medical denotation is to be maintained, is a symptom of a psychological disease, which is the deep-rooted, natural yearning, by many today, for demonstrative values that are no longer explicit or operative in our culture but which seemed to be years ago, even half a century ago.

It isn't fashions or customs people go to see in old movies or read in reissued books. Nor do they simply expect to be entertained. It isn't even for a "glimpse into the past"; the past can be made to be as boring as can be the present, as any number of modern films, books, and plays amply demonstrate. No, the phenomenon can be explained only in terms of the *values* people may see in those films or books.

One can begin formulating the framework of an explanation of cultural nostalgia by appreciating the extent to which government intervention has swayed our lives. It has undoubtedly affected our relationships with our jobs, careers, each other—the things we work for and value. The generation that can recall when taxes and regulations were minimal, when our money was composed of gold, silver, and trustworthy notes, when we did not have to subvert our mental processes and honesty by scheming against a multitude of inane laws and two-bit bureaucrats to keep as much as possible of what was ours, when we were not being constantly harangued and harassed by committees of experts and councils of concerned amateurs, by package warnings, subtle and blatant propaganda, pseudo issues, and appeals to either consume this or deny ourselves that for one's own good and for that of the public, when the future was relatively obstacle-free and our own to plan confidently—well, that generation is all but gone. That generation, whose few bewildered, sad, and resigned survivors one may still encounter or remember in one's own life, can even recall when there was such a thing as benevolence and good will among men. There were so many attributes of a civilized society that those of the earlier generation took for granted, and which are simply unknown in personal terms by later generations, that it would be impossible to list them here. No doubt many of those attributes contribute to the magic that many people experience in older art. Only one, however, need concern us here, and that is the ineluctable fact that *values were taken seriously.*

If one were to rename the phenomenon of cultural nostalgia with more precision, one would have to call it the "value crisis syndrome."

A tilt toward altruism and the rapid growth of statism took care of all that. It was only after World War I that those attributes—minimal regulation, self-reliance, etc.—began to vanish as norms in society. The war changed more than just the economies or political make-up and direction of Western nations. It began to work inexorable psychological consequences as well. Perhaps the biggest change, in terms of this discussion, is that, over the decades, more and more of our time, energy, and attention has been abridged or removed from our direct control. We can reserve only an ever-diminishing fraction of our lives for what is important to us. Regardless of what any one of us holds as important to the happiness of his life, that importance as a personal issue is being eroded by external issues, by *other-oriented* values. Life is no longer an adventure—it is a chore of survival.

This dilemma contributes to an alienation that many people can neither grasp nor be even vaguely aware of. Forced upon them is the decision to live for their most important values or to simply live as comfortably as they can (which in itself can demand as much or more energy). They sense that a truly personal purpose in their lives has escaped them. Their whole approach to living and working has somehow been distorted. They've pigeonholed the things they cherished most and hoped to have time for them later, but in time they've either lost them altogether or forgot them until they return to haunt. They've prepared for a comfortable retirement, found the best tax shelters, connived for the maximum in government benefits, and exhausted themselves to protect themselves *from* society. The best of them ask themselves if this is all there is to living. The more honest among them say no. To what end did they expend, or are in the process of expending, a lifetime of vitality?

Another ingredient of the explanation of this current cultural nostalgia lies in the victory of nonobjective art, one so complete and pervasive that not only can we not see art in our culture (except in extremely rare instances) but we don't expect to see it, either. Most people have accepted the notion that representational art was just a phase—that plays such as *The Miracle Worker* and *Cyrano de Bergerac* are just as, though not more, interesting as is any caricature study by modern playwrights like John Guare and Sam Shepard, and that popular music is interchangeable with classical music.

Ayn Rand's prophecy of the complete inversion of esthetic criteria came to pass decades ago. The victory of nonobjective art has left people wandering in an endless junkyard of artistic medium mix-and-matches, ferocious anti-art, and plagiarized plagiarisms. Their senses have been so dulled by the monotonous "big beat" of glorified tripe that when something of value does manage to emerge, it is perceived as accidental, amusing, and, of course, subjective. (All

(Continued on page 57)

the book case

And Now, A Word about Advertising

By John Hospers

Advertising, the Uneasy Persuasion, by Michael Schudson
New York: Basic Books, 288 pp., $17.95

To hear many Americans talk, one would think that advertising is the ultimate evil: war and violent crimes come in for their share of condemnation, but the real tirades of many Americans are reserved for advertising, the object of their most emotional outbursts of moral indignation. Advertising, it is said, is the vulgar expression of a culture that is selfish and materialistic; its continuation helps to reinforce these very qualities in a culture; besides all that, it is a form of coercion, impelling its victims to buy what they have no need for and robbing them of their free will.

Michael Schudson is happily free of these misconceptions. He provides in *Advertising, the Uneasy Persuasion* many illustrations of how advertising can be superfluous and misleading, but he also shows at considerable length how consumers exercise their free will with regard to advertising, so much so as to defy any single formula for making a product successful by advertising it. It is easy to say in retrospect that Ford misread all the signs in bringing out the Edsel, yet its success was predicted on the basis of a large amount of the best research available at the time. There was every reason to believe that the Procter & Gamble product "Pringles" (a new kind of potato chip) would be enormously popular, and it received saturation advertising; Procter & Gamble is one of the most seasoned advertisers in the business, yet the product bombed. No amount of advertising will save a product that consumers don't like.

Volkswagen sales boomed in the 1950s without any advertising at all and declined in the 1970s in spite of heavy advertising. Why did the sale of whiskeys decline in the last two decades, in spite of much advertising to save it, and that of wines go up? There are theories on the subject, but nobody really knows. And the most spectacular sales increases of all, in marijuana and cocaine, have taken place without any advertising at all. "Advertising's effect on sales," the author concludes, "is always less than that of population, income, and other environmental variables." And a price reduction on the product is almost always more effective in promoting sales than is advertising. Why not, then, devote expenditures on advertising to price reduction? Because that doesn't always work either: sometimes, of two identical products, it is the higher-priced one that sells the best, presumably on the assumption that if it's more expensive it's better. The ups and downs of consumption are simply not highly correlated with any advertising budget.

Those Americans who hate advertising are often those who hate America as a rebellion against parental values, particularly the "materialistic" values that enabled them to be brought up in such affluence.

"Half my advertising expenditures are wasted," said J. W. Woolworth many years ago; "the problem is, I don't know which half." Some companies put a fixed percentage of their income into advertising, some advertise before a product becomes a success, some advertise after it is successful, to keep it so. Nobody knows to this day which policy is preferable—there are many correlations but no provable causal connections.

Sometimes an event in the outside world over which the industry has no control appears to be decisive. President Kennedy went hatless, and on this is blamed the decline of the hat industry. Or was Kennedy's habit the harbinger of a trend that would have occurred anyway? There was at the time a trend toward longer hair styles—was that the cause of the trend toward hatlessness that no amount of advertising by the hat industry was able to reverse? Nobody really knows: we cannot replay history with one factor at a time missing, to see what would happen in the absence of that factor. Nobody knows to what extent advertising is a causal factor in sustaining a product's profits or whether it simply provides a bit of impetus for a product that would have succeeded without it.

If ads are ever causally effective, that is not the result of some fiendish behavior-modification conspiracy. Most consumers, says Schudson, already recognize ads to be trivial and are aware that they give a minimum of genuine information. But it is precisely this, he says, that enables an ad to be successful: "Were consumers convinced of the importance of ads, they would bring into play an array of 'perceptual defenses' as they do in situations of persuasion regarding important matters." Indeed, writes Schudson, "if there are signs that Americans bow to the gods of advertising, there are equally indications that people find the gods ridiculous."

One area in which advertising can be effective is calling the consumer's attention to the existence of a new product (or new brand of an old product). According to the author, about 80 percent of new products fail. So who can blame a company for using advertisements to promote the new product and lessen the risks involved in producing it? (When I was a child, a new brand of soap came on the market, then called "Vogue," half again as large as any other bar of soap that sold for the same price, five cents. The company was determined to use the money it would have spent for advertising on giving the consumer a bigger and better bar of soap for a nickel. In spite of many loyal consumers, the product failed for lack of sufficient public knowledge of its existence. What would the opponents of advertising say about this case?)

For many of the opponents of advertising, it is not advertising per se that is found objectionable but the "material-

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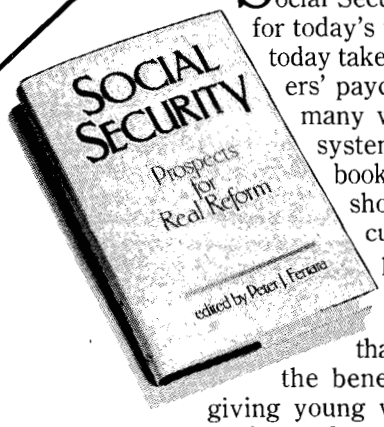

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istic society" that it is thought to reflect and also promote. On this as on so many issues, author Rose Wilder Lane spoke most eloquently (quoted in a collection of her letters, *The Lady and the Tycoon*):

> This scorn of "materialism" seems to me to be either a shallow and thoughtless cliché, or an expression of frustration, despair, envy, hate—as in the general European and Asiatic "contempt" for this country's "sordid materialism." Europeans flaunt their "culture," Nehru flaunts Indian "spirituality." America, they say, has nothing but plumbing; how low, how vulgar, how contemptible, a country that values bathrooms while Europe loves art and India has a soul. Well, I'll raise right now the flag of the bathroom. What *is* a bathroom? It is cleanliness, health and all other values of human *life* on this earth: leisure, learning, art, culture, because it releases human beings from life-wasting drudgery. Paris can have its art—and its "working class quarters" where pale people live in airless, windowless rooms, wear dirty clothes on unwashed bodies and use the pavements and gutters as dogs do.... Give me American bathrooms; give me the country where pumps and pipes are the working class, where "gadgets" *serve* the values of human life, and human beings have a lifetime to *live*. India can have its "spirituality" and its over-populated land, and under-fed, hungry, overworked, dirty, sick people sitting in the dust half-naked, with flies swarming on their babies' eyes and holy cows eating the little food they have. India is "spiritual" because it hasn't enough to eat.... Speaking for myself, I am all *for* "American materialism."

Those Americans for whom hatred of advertising is a consuming passion are often those who hate America as a rebellion against parents and parental values, particularly the "materialistic" values that enabled these young people to be brought up in such affluence that they can now condemn it. They have never visited a totalitarian nation such as the Soviet Union, in which no advertising exists because there is a shortage of virtually all consumer goods, and there are no privately owned businesses anyway. The billboards contain only pictures of Lenin and political propaganda. In this gray monotony one comes to miss the advertising and to recognize it as a sign of the abundance of life-enhancing consumer goods that characterizes those nations in which advertising exists.

Economist Robert Heilbroner called advertising "the single most value-destroying activity of a business civilization." Schudson finds these words "overblown but still troubling." Advertising, he fears, constitutes "too vivid a body of evidence about what is base in American life." I suggest that he need not have been so concerned. Though there is some false advertising (punishable when proved), misleading advertising, and vulgar advertising, advertising is important (even if for nothing else) as a bellwether of a culture. Show me a country in which no advertising exists, and I will show you a country so drab, so filled with poverty and hunger, so controlled by a central authority whose tentacles reach out into all the areas of private life, that neither Schudson nor Heilbroner would want to live in it.

John Hospers teaches philosophy at the University of Southern California and is the author of several books, including Understanding the Arts.

Gresham's Law of Education

By Joan Kennedy Taylor

Why Are They Lying to Our Children? by Herbert I. London
Briarcliff Manor, N.Y.: Stein and Day, 197 pp., $15.95

The textbooks being used in our schools, says Herbert London, are "encouraging a generation of students to be intolerant about matters over which they have been systematically misled." Primarily, these textbooks have uncritically endorsed the idea that the world faces a future of pollution and poverty.

Our textbooks are singularly lacking in materials that could help students learn how to think and examine argument and proof.

London himself is keenly concerned about the future, being National Chairman of the Visions of the Future Education Program of the Hudson Institute, as well as the dean of the Gallatin Division of New York University. But don't conclude that this is an academic book—as its title indicates, it is addressed primarily to parents who have children in American elementary or high schools. London has taken on all the school textbooks that discuss the future and concluded that "Gresham's law of education today seems to be that bad news—even when false—will drive good news out of circulation."

His findings are based on all the texts published "in the last five years" (copyright dates range from 1975 to 1983) that discuss the future, a list of which—67 of them—he appends. He calls *Why Are They Lying to Our Children?* a review of these books. London summarizes, with numerous quotations as well as refutations, the information these texts present in seven areas: population and food, energy, minerals, environment, economic development, outlook on the future, and the limits-to-growth ideology. The final chapter offers questions to be asked of the advocates of doom, as well as specific recommendations to parents on how to counter the effect of these teachings by encouraging their children to think critically.

The conclusions about the end of abundance and the imminence of environmental catastrophe presented in these texts are based on trend projections in studies such as the 1982 *Global 2000 Report to the President*, E. F. Schumacher's best-selling book *Small Is Beautiful*, and *Limits to Growth*, written in the early '70s by a group of thinkers, referred to as the Club of Rome, concerned with global economic problems. Many of the findings of these studies have been modified or contradicted, but they live on in our schools, supported either by dogmatic assertions, which London demonstrates are often contrary to fact, or by out-of-date facts. For instance, a 1981 text uses a 1955 figure on life expectancy in India to support its contention that life-expectancy rates in less-developed countries are contracting, when in fact they are expanding.

What the conclusions presented in these textbooks particularly lack is any form of risk analysis. By presenting the dangers inherent in contemporary industrialization—dangers of pollution, of environmental damage, of species destruction—without any discussion of the trade-offs, a completely false picture of the actual policy decisions to be made is created. This is not endemic only to text-

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books, of course—it is also true of the media in general.

As I write this, the world is still reeling from the impact of the largest industrial accident it has yet experienced—the deaths of an estimated 2,000 Indians in Bhopal, due to the leaking of poisonous gases from a Union Carbide pesticide plant. A fat folder of clippings on the tragedy holds article after article about the need for regulation that the tragedy underlines, about the "outrageous disregard for health and safety concerns by the Reagan Administration," about the culpability of Union Carbide, even though, as was gradually revealed, the Indian government passed the regulations, formulated the work rules that required manual rather than computerized safety devices, and required Union Carbide supervisory personnel and technicians to leave in 1982 and be replaced by an all-Indian management.

Overall, the media saw the story as pointing to the need for more controls over and regulation of technology. Only a handful of stories (including an outstanding front-page story by Philip M. Boffey in the *New York Times* on December 16, 1984) mentioned the trade-off involved. Pesticides are a major contributor to the "green revolution" that has brought India from a land of periodic famine to self-sufficiency in grain; the particular pesticide is less environmentally toxic than the notorious DDT.

True, the chemicals were dangerous, particularly when the Indian government overruled the safety regulations suggested by the American parent company. But would we prefer India not to develop pesticides and therefore still have people starving? This is not, of course, to say that we should not continue to improve the safety record of pesticide and other chemical plants. As a matter of fact, in the United States the chemical and refining industries have the best safety record in US manufacturing, precisely because of the dangers involved. It is this kind of trade-off that our children should be encouraged to analyze but are not, either by the media or by their textbooks.

Although London's book will appeal to conservatives, it would be a mistake to read his argument as merely an argument for more "conservative" content in textbooks. He is a strong opponent of the conclusions reached in these textbooks, but his thesis is not so much

book hints *a selective mention of books received for review*

Year after year, dutifully though reluctantly, many of us pay our income taxes. Most of us are probably vaguely aware as we multiply our capital gains by .60, subtract that number from the total gains, and put the result on line x of Form D, that this formula has no independent logic of its own. It is the result of politics. That is the theme that Jerold L. Waltman takes up in *Political Origins of the US Income Tax* (Jackson, Miss.: University Press of Mississippi, 124 pp., $12.50). Waltman provides an enlightening political analysis of various income-tax policies promoted between 1913 and 1921 and then discusses how issues raised at that time relate to current public-policy debates. Taking a look at modern tax reform is *Fair Tax, Flat Tax, Simple Tax*, edited by Joseph A. Pechman (Totowa, N.J.: Rowman & Allanheld, 170 pp., $21.50/$9.95), which provides a nontechnical look at key tax-reform proposals.

A broad range of public-policy issues is tackled in *Beyond the Status Quo: Policy Proposals for America*, edited by David Boaz and Edward Crane (Washington, D.C.: Cato Institute, 292 pp., $20/$8.95). Thirteen distinguished scholars and policy analysts offer an array of policy proposals that would reduce the role of government in solving problems. Richard E. Morgan's *Disabling America: The "Rights Industry" in Our Time* (New York: Basic Books, 245 pp., $16.95) provides an outstanding criticism of the trend of the past 20 years to vastly extend the concept of rights. Morgan argues that this trend requires such extensive government action that it may eventually destroy the private realm altogether.

Several books of note on specific policy issues may interest defenders of free markets: On some effects of airline deregulation is *Deregulation and the New Airline Entrepreneurs*, by John R. Meyer and Clinton V. Oster, Jr. (Cambridge, Mass.: MIT Press, 240 pp., $22.50). On medical licensing is *Canadian Medicine: A Study in Restricted Entry*, by Ronald Hamowy (Toronto: The Fraser Institute, 394 pp., $14.95 paper). And on privatization in Great Britain is Madsen Pirie's *Dismantling the State: The Theory and Practice of Privatization* (Dallas, Tex.: National Center for Policy Analysis, 115 pp., $6.95 paper). Also on privatization, but with a focus on the United States, is Stuart Butler's *Privatizing the Federal Government* (New York: Universe, 133 pp., $14.95).

An excellent discussion of public versus private education is set out in *Choice in Education*, by S. R. Dennison (London: Institute of Economic Affairs, distributed in the United States by Transatlantic Arts, Albuquerque, N.M., 94 pp., $9.25 paper). For those contemplating home schooling, *The Complete Home Educator*, by computer educator and science teacher Mario Pagnoni (Burdett, N.Y.: Larson Publications, 230 pp., $10.95 paper), may provide an excellent resource, especially for those interested in using a home computer in their education plans.

Speaking of education, *Ernie Discovers Excellence: A Capitalist Fable*, by Lewis Lazare (Chicago: Turnbull & Willoughby, 60 pp., $9.95), is a delightful children's book designed to portray business and the pursuit of excellence positively.

For students and teachers at the university level, *Foundations of the Market-Price System*, by Milton M. Shapiro (Lanham, Md.: University Press of America, 422 pp., $29.50/$16.75), provides a nonmathematical introduction to economics written from an Austrian School, free-market perspective. Even those who find most economic literature to be dry may enjoy Maurice Levi's *Thinking Economically* (New York: Basic Books, 281 pp., $16.95). In exceptionally witty prose, Levi introduces the general reader to the "dismal science," showing not only how economists approach problems but also how such reasoning can facilitate better everyday decisions.

Making good decisions is the key to good investments. Harry Browne's *Investment Rule #1* (Austin, Tex.: Harry Browne Special Reports, Inc., 244 pp., $17.95 paper) offers insights on investment strategies from a leading investment expert. Those wanting a Midas touch in their investment portfolio may find help from *New Profits in Gold, Silver, and Strategic Metals*, by Peter Cavelti (New York: McGraw-Hill, 221 pp., $15.95).

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that what is presented in contemporary textbooks is wrong as that it is wrongly argued. Over and over he tells his readers that whether the arguments against the textbooks' cited doomsday positions would be persuasive to the teachers or to the students using the books is not the point—the point is that such arguments aren't there to be considered. Our textbooks are singularly lacking in materials that could help students learn how to think and examine and understand argument and proof.

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Joan Kennedy Taylor is the publications director of the Manhattan Institute for Policy Research.

Seas of Red Ink

By Stuart M. Butler

Nationalized Companies: A Threat to American Business, by Joseph Monsen and Kenneth Walters, New York: McGraw-Hill, 178 pp., $17.95

Throughout a trip home to Britain by this reviewer in November 1984, two issues dominated the local news: the (then) nine-month-long mineworkers' strike, and the preparations for the sale to the public of British Telecom—Britain's nationalized telephone system—in the world's largest-ever stock offering.

These issues drove home a key point of Joseph Monsen and Kenneth Walters's useful book, *Nationalized Companies*—that nationalized firms are political, not commercial, in nature. They also revealed how effective British Prime Minister Margaret Thatcher has been in tackling the state-owned monopolies, a development ignored by the book's authors.

Nationalized Companies provides a valuable and readable guide to the realities of state ownership in Europe. Large firms, and sometimes entire industries, were taken into the public sector for a number of reasons. In some cases, the authors note, it was to counter the financial collapse of a major firm (such as Britain's Rolls Royce in 1971). In other cases, especially in France, nationalization has been used as a key instrument in trying to develop new markets and core industries. But perhaps most important of all, selective nationalization has been used by European socialists in an effort to determine the course of the entire economy—to "occupy the commanding height of the economy," as Britain's Labour Party put it in announcing a sweeping program of nationalization in 1945.

Monsen and Walters do not dwell on the philosophical or theoretical questions surrounding state ownership. Instead, they look carefully at its track record, providing comparative data on the performance of firms and examining issues such as management strategy, pricing, and control. A clear picture emerges. The balance sheets of nationalized industries are consistently a sea of red ink. "In 1980, more than half of these companies reported losses that ran into the hundreds of millions of dollars, and some over a billion dollars." Productivity is abysmally low in such companies, and labor relations poor. The only reason many of these firms remain in business at all is that they enjoy a state-sanctioned monopoly.

Selective nationalization has been used by European socialists in an effort to determine the course of the entire economy—to "occupy the commanding height of the economy," as Britain's Labour Party put it in 1945.

The causes of this poor performance will likely come as no surprise to REASON readers, but this book will help to bring it to the attention both of the nation's business students and of those who flirt with notions of "public ownership" of key firms. The root problem is politics. "Close observation of Western Europe reveals one very clear point; Nationalized firms are always the tools of politicians."

The power any capitalist or business group has over an economy, note the authors, "pales in comparison" with the control a government can exercise through ownership of such industries. Inefficiency becomes structural when politicians manipulate prices to please the public (although as far as service is concerned, "haughty indifference to consumers is par for the course"), or when they locate factories in politically sensitive districts or force companies to provide uneconomic services to favored segments of the population.

The recent British miners' strike, however, shows how political control of an industry can also backfire. Since workers in a government-owned and subsidized company do not have to depend on the firm's profitability for their continued employment, and since state industries generally form the foundation of the economy, nationalized firms tend to be a magnet for politically motivated unionists. Some of these leaders take the view that nationalized firms should provide a social service to the nation by guaranteeing "jobs" even if no productive work is available.

Some also see the industries as vehicles to challenge government economic policy. This translates into strikes that are not intended to hurt the employer (that is, the government) but are aimed at causing maximum irritation to the public in order to bring political pressure to bear on the government—and anyone who has stood for hours in a strike-bound London railroad station or airport will know how effective that can be.

The miners' strike epitomizes all the forces that come to play in this situation. Led by Arthur Scargill, who left the British Communist Party because it repudiated Stalin, the miners were demanding that all mines should be kept open as long as an ounce of coal still exists to be extracted—no matter how uneconomic that would be. Scargill made it clear that beyond the immediate objectives of the strike, the aim was to break the government of Margaret Thatcher. That was no idle threat. A Scargill-inspired strike in 1974 so disrupted the British economy that it brought down the last Conservative government, headed by Edward Heath.

While the authors do a good job in analyzing the factors that contribute to the poor performance and chronic labor problems of nationalized firms, the book is much less satisfactory when it tries to speculate on the implications for the United States. And it largely ignores recent moves toward denationalization in Britain (already under way before this book was published). The authors correctly note, for instance, that America has generally used regulation to influence the course of key industries such as utilities, rather than the European practice of government control. But while recognizing that government ownership inevitably leads to political manipulation, Monsen and Walters seem to swallow the industrial-policy notion that "specific policies must be designed for particular industries which need to be preserved and modernized." Moreover, they appear to believe that *these* policies could be free of special-interest politics.

The authors have also overlooked the potential of the Thatcher government in changing the dynamics of nationalization. Many governments in many countries have tried to roll back nationalization by selling off state firms to large private investors—only to encounter public pressure and employee opposition to such "giveaways." Often, renationalization took place under later governments.

Thatcher, however, has "privatized" firms by providing powerful financial incentives to employees to own stock in denationalized firms (95 percent of British Telecom's employees bought stock in the recent flotation). The Thatcher plan, significantly, favors millions of small buyers over a few large corporate investors. The result? A reduction in employee opposition, and strong resistance likely to future nationalization proposals. In short, Thatcher has broken out of the political straitjacket of "public ownership" by actually transferring ownership to the public.

Nationalized Companies is a useful book. It provides data and case studies that will be helpful to any scholar of government planning. But—perhaps of necessity—it tells only half the story. The reaction against state ownership in Europe, and the innovative political means being used in that campaign, is only now being told in the pages of REASON and other journals.

Stuart Butler is director of domestic policy studies at the Heritage Foundation. His book Privatizing Federal Spending *was published in May by Universe Books.*

Libertarianism on Trial

By Douglas B. Rasmussen

Liberalism at Wits' End, by Stephen L. Newman
Ithaca: Cornell University Press, 184 pp., $19.95

The modern state, with its ever-expanding range of activities, is increasingly under attack. Much of the attack has been diffuse, in the form of tax protests or reactions to specific policies. But discontent has also given rise to a body of critical thought—libertarianism—that offers a coherent critique of the modern state. Libertarian theorists have argued that government ought to be either strictly limited to the protection of individual freedom or even abolished altogether.

In *Liberalism at Wits' End*, Stephen L.

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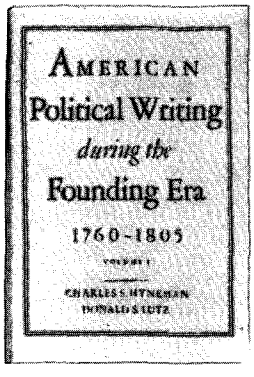

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Newman claims to study seriously the libertarian revolt against the modern state. After examining some of the works of Murray Rothbard, John Hospers, Tibor Machan, and Friedrich Hayek—theorists who have attempted to justify libertarian individual rights—he concludes that libertarianism is nothing less than liberalism "at wits' end."

By *liberalism*, Newman means the view of man and the state developed by 17th-century political theorists, particularly Thomas Hobbes and John Locke. For these theorists, man is basically a hedonistic animal, driven by his passions and motivated by the pursuit of pleasure. The state is a product of convention, or a hypothetical "social contract," devised by humans to serve certain ends.

In Newman's view, in contrast, the state is an integral, essential part of human society. Thus he argues that libertarianism exaggerates the most serious defect of this liberal tradition—namely, the failure to develop an adequate concept of politics. By denying a role for state action beyond that of protecting individual rights, libertarianism accepts "the Lockean fantasy in which the state of nature comes true and historical politics is banished forever." The social and political nature of man is thus ignored and made subservient to a bourgeois individualism that treats economic self-interest as the motivating force behind human action. Says Newman:

> The libertarian approach to individualism, which merges personal and property rights, suits perfectly the modern consumer society, where "you are what you own." Moreover, it reflects a concept of the self and of self-fulfillment already widespread in the United States. The pursuit of happiness has become the pursuit of pleasure.

Accordingly, Newman believes that libertarianism is guilty of what 19th-century political theorist John Stuart Mill accused his contemporary Jeremy Bentham of doing: treating the business *part* of human affairs as the *whole*.

Newman claims that libertarianism has taken Lockean principles of individual rights that had a point in a certain historical context—asserting the rights of property in order to discredit aristocratic privilege—and tried to extend them to our time. Yet our world is not Locke's, and Newman counters that government power is hardly more threatening now than the economic power of large corporations.

Moreover, he believes that the libertarian defense of the individual's right to keep what is his is in conflict with the promotion of individual autonomy. Freedom to act and choose one's actions independently requires that the state limit property rights so that the have-nots might be provided with the capacity to be in charge of their lives.

Newman thus recommends that liberalism move away from an "irrational Lockeanism" that subordinates a person's capacity for action to property rights. Instead, liberals should develop criteria for state action that admit the existence of "public" interest apart from the sum of private, individual interests.

John Stuart Mill, 19th-century political theorist: He divined a fatal flaw?

To follow this recommendation, liberals should take their lights from the classical republican tradition and the ancient Greek *polis*. In this tradition, involvement of the public authority in citizens' affairs is regarded as necessary for the development of each citizen's moral well-being. Political action is necessary in order to develop a person's capacity for action—what Newman calls *positive* liberty. "Freedom of this sort is the prerequisite to citizenship. It requires that we define a social space in which private interests (and the interests of privacy) are subordinate to the common interest in equal liberty." With a return to this view of politics, Newman believes, a notion of the public good can be accepted and the first step taken by liberalism in developing an adequate concept of politics.

The libertarian attack on the modern state, suggests Newman, is a response to what Theodore Lowi has called "interest group liberalism." While conceding that something must be done, Newman concludes that libertarianism "leads only further from the political alternatives needed to rescue the liberal tradition from itself." Is Newman right?

No—or at least, not necessarily so. Justifying Lockean rights requires neither accepting state-of-nature theory nor denying the social and political nature of man. Certainly it does not require accepting that the pursuit of happiness is nothing but the pursuit of pleasure. In fact, the central problem with Newman's analysis of such libertarian theorists as Tibor Machan, author of *Human Rights and Human Liberties*, is that it fails to appreciate the profoundly Aristotelian character of Machan's account of human nature and goodness, in which happiness is inextricably linked to the distinctively human capacity to reason. Machan does not (nor does Rothbard, for that matter) interpret human happiness or well-being along hedonistic lines or explain human action in terms of economic self-interest. Nor does Machan attempt to deny the importance of living and working with other human beings. It is just plain false to accuse libertarianism of necessarily ignoring the social and political character of man.

Besides failing to deal adequately with the philosophical foundations from which a libertarian theorist like Machan operates, Newman makes some serious scholarly omissions. The work of Eric Mack, a libertarian who makes his living as a professor of philosophy, is ignored. Important articles by Mack written during the '70s—"How to Derive Ethical Egoism," "Egoism and Rights," and "Egoism and Rights Revisited"—are not mentioned or discussed. Also, *Reading Nozick* (1981), edited by Jeffrey Paul, which includes Mack's "How to Derive Libertarian Rights," together with important articles by others, is never discussed, nor is the collection of essays by different libertarian theorists, *The Libertarian Reader* (1982), edited by Machan. Since the issues involved in justifying Lockean rights are difficult and complex, it is irresponsible of Newman not to have acquainted himself with the range of libertarian theory.

Another reason for the difficulties in Newman's analysis of libertarianism is his tendency to see it as just a 20th-

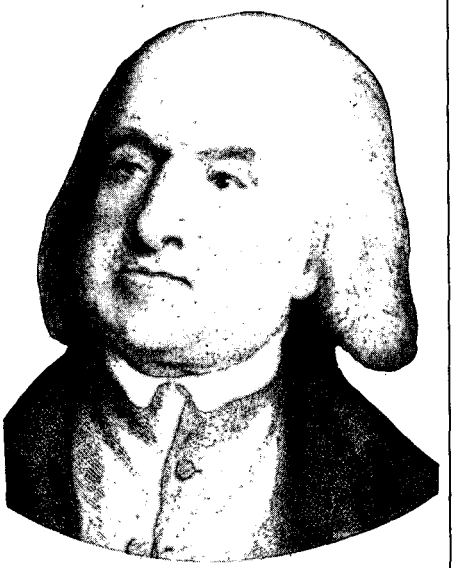
century version of classical liberalism, which is often perceived as lacking any concept of moral goodness and human nature. This may be true for some libertarian theorists. But for others, particularly those influenced by the novelist-philosopher Ayn Rand and who approach many of the issues from the Aristotelian tradition, the justification for Lockean rights is based on a robust conception of human nature and moral goodness. Human autonomy is regarded as a power that one, unless disabled, already possesses and not something that must be provided by the actions of others.

So the central moral question is whether the individual human being will exercise his or her autonomy so as to attain well-being. And the central *political* question is whether there will be a legal system that protects all individual human beings in living their lives in accord with their judgments. The classical liberal tradition was never too clear about the nature of human autonomy and how it served as the foundation for liberty. It is this ambiguity that Newman trades upon in calling for equal positive liberty for all citizens.

This ambiguity regarding the nature of human autonomy is also the basis for Newman's assertion that autonomy and property rights conflict. But in claiming that people are not autonomous unless they have the wherewithal to live a fulfilling life, Newman is simplistically equating human autonomy with human well-being. He even misconstrues what someone like Machan understands human well-being to be. Human well-being, or flourishing, does not consist in having all of one's needs satisfied; rather, it consists in individual persons satisfying their own needs. Living according to one's own choices is an inherent and vital feature of human flourishing. Protecting the liberty of all persons to live in accord with their choices is the political prerequisite for the attainment of this ultimate end.

Newman believes that libertarianism cannot assist liberalism in developing an adequate concept of politics and cannot make a place for public good. In part, he believes this because he erroneously assumes that libertarianism must hold a hedonistic and atomistic view of man and society. He also assumes that the political character of human nature requires a role for state action beyond protecting Lockean individual rights.

Yet it is not at all obvious that the political character of human nature demands this. As Fred Miller, Jr., another libertarian theorist ignored by Newman, made clear over a decade ago in an article in *Reason Papers*, the Greek term *polis* was used to mean either "a community, a complex set of human relationships, voluntary as well as coercive, personal as well as public," or "an association of citizens in a constitution." So, acknowledging an important role for the Greek *polis* in human development does not necessarily imply a role for the state.



Jeremy Bentham, Mill's intellectual opponent: Guilty, with libertarianism?

Finally, it is not at all clear that libertarians cannot embrace a notion of the public good—or, at least, the political common good. If the human good is understood in terms of principles covering a wide variety of concretes, and if it is true that individual human beings must apply these principles to the particular goals and problems of their lives, then as Ayn Rand has noted, the common good "lies not in *what* men do when they are free, but in the fact *that* they are free."

The libertarian response to the modern state deserves to be seriously examined. But the searching and extensive criticism of a truly outstanding study is yet to be trained upon libertarianism.

Douglas B. Rasmussen teaches philosophy at St. John's University and is the coeditor of The Philosophic Thought of Ayn Rand *(University of Illinois Press, 1984).*

(Continued from page 47)

the art dealers, museum directors, critics, and intellectuals say so.)

And here we come to the crux of the paradox: oddly enough, these same people still search for those values, against their conscious or professed convictions, against their best pragmatic instincts, against even their certain knowledge that finding them will cause the wrenching pain of an awareness of a dichotomy between their real lives and their most profound values. But—they still search.

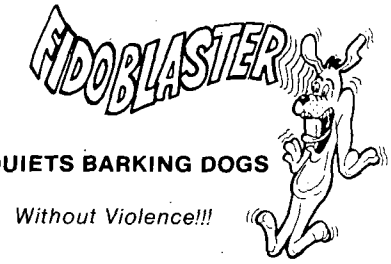
Why? They're still human. Their public souls may have been conquered by Pollack's drippings, Peckinpah's gore, Nevelson's welded monstrosities, and Stravinsky's clamorous chaos, but their private souls—repressed, bruised, and disavowed—still function as private souls, untouched by insistent subjectivism and by their own compromises.

But even here, their saving grace is flawed. They may value what they see in the past, but they equate the incidentals or superficials with the essential attributes of an older film or play or book, and then compound this fallacy by viewing both aspects as its *intrinsic* attributes, that is, as things exclusively indigenous to a particular era or time period. They see values taken seriously in another time and place but believe that such commitment and loyalty and the drama they can make possible are not possible today. Thus they perpetuate their nostalgia, ruling out the chance that the dominant value in an art work may be possible in their own lives and their own time.

For this reason, if one had to select one of the definitions of nostalgia at the beginning of this article, one would have to choose the second as the kind of nostalgia prevalent today, with the emphasis on *irrecoverable.* The values one may seek in the past *are* irrecoverable if treated as being beyond one's control or inapplicable to one's own life.

"Worthy books are not companions," wrote James Philip Bailey, a 19th-century poet. "They are solitudes; we lose ourselves in them and all our cares." The same can be said about movies, music, and paintings, though one should amend the paraphrase to read, "we lose ourselves in them *because* of our cares." The tragic philosophical and psychological roots of nostalgia are not indigenous to our century, either.

Edward Cline is an Institute for Humane Studies staff member and is also at work on his fifth novel, a murder mystery.



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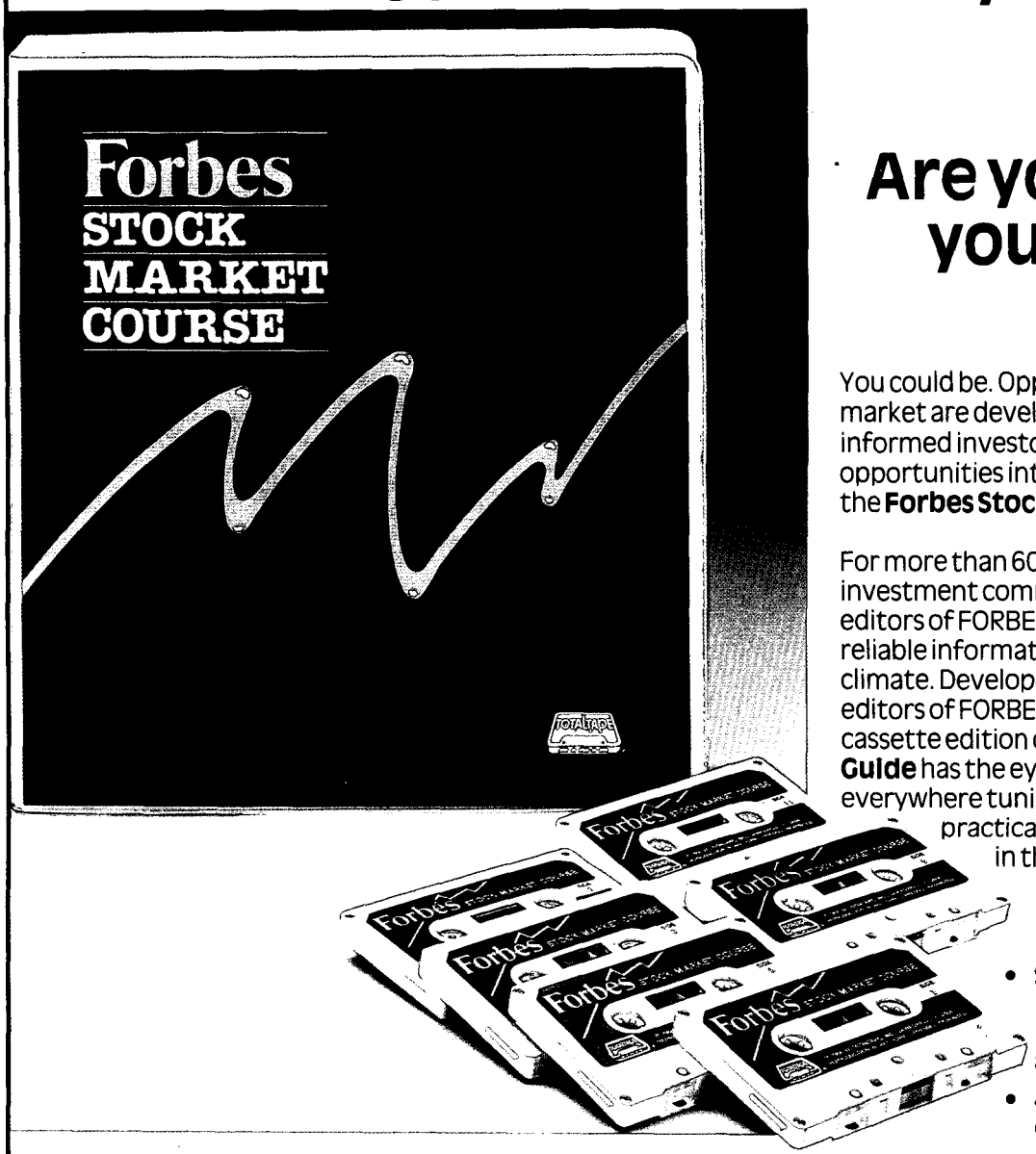

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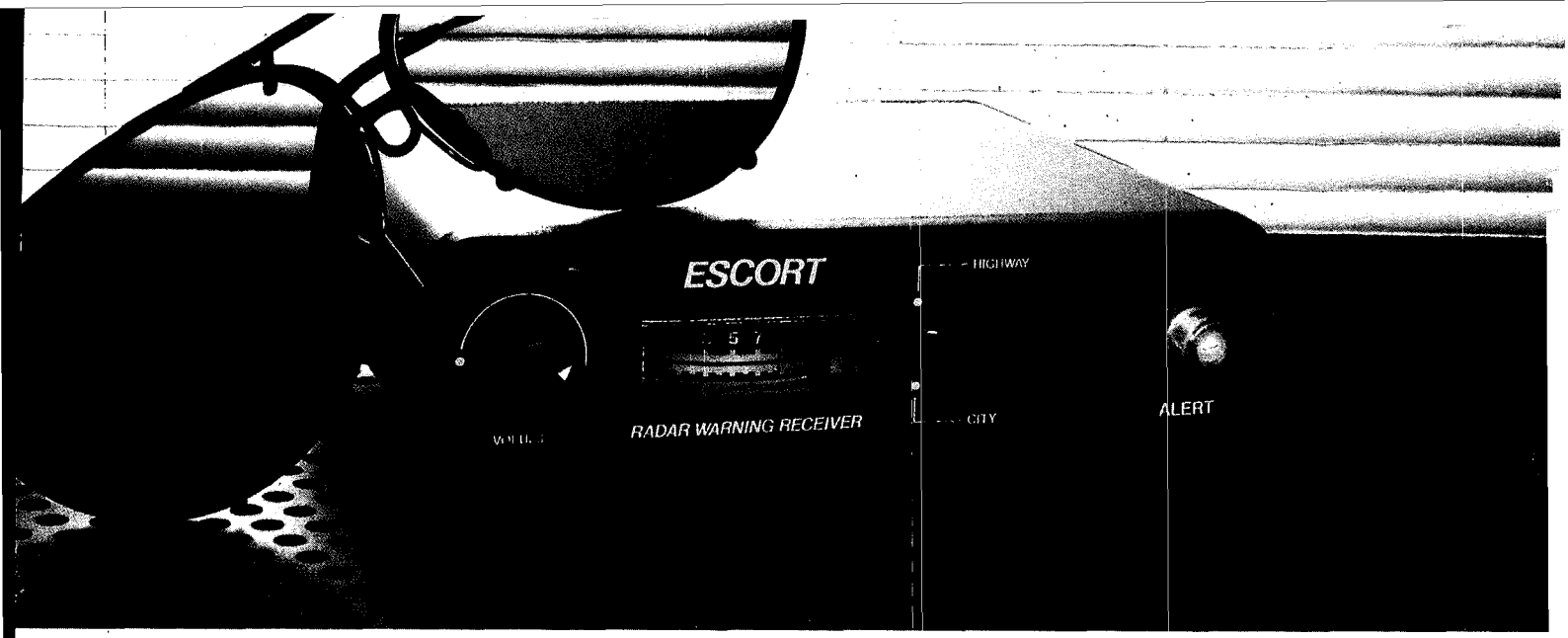

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ESCORT is sold in one place only, the factory that makes it. This lets you deal directly with experts. Any of our staff of over 60 sales people will be glad to answer any questions you may have, about ESCORT or about radar in general.

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Cincinnati, Ohio 45296-0100

Tune in "Talktalk," the satellite call-in comedy talk show. Sunday evenings on public radio stations. Check local listings.

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